

2018 CHINA MENGNIU DAIRY COMPANY LIMITED

Sustainability Report(ESG Report)



蒙牛®

Hong Kong Stock Exchange Stock Code:2319

MENG

NIU 2018



About The Report

Period

This report covers the period from January 1st, 2018 to December 31st, 2018. Some contents and data are from previous years.

Organizational Coverage

The report covers China Mengniu Dairy Company Limited and all its branches, subsidiaries, and affiliates.

Publish

China Mengniu Dairy Company Limited Sustainability Report (2018) is the sixth non-financial report.

References

Compliance with *Environmental, Social and Governance Reporting Guide* of the Stock Exchange of Hong Kong Limited and the GRI Standards

Abbreviations

For convenience, China Mengniu Dairy Company Limited is also referred to as Mengniu, the Group, the Company and We in this report.

Data Sources

All information and data used in this report originate from formal files, statistical reports, and financial reports of the Company. All materials used in this report are provided by our employees and our partners, which will only be used for reporting our progress in sustainable development, and may not be used for commercial purpose.

Language

This report is provided in three languages: simplified Chinese, traditional Chinese, and English. In case of any discrepancy among these three versions, the Simplified Chinese version shall be authoritative.

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CEO's Statement

With the continuous upgrading of domestic consumption and the increasing diversification of consumer demand for dairy products, China's dairy industry is facing a new picture of industrial upgrading and product structure optimization. In 2018, Mengniu made consistent efforts to respond to challenges, while striving for innovation. In order to build a world-class benchmark dairy enterprise, Mengniu aligned itself with UN 2030 Sustainable Development Goals, adhering to the mission of "focus on nutrition and health, deliver a drop of happiness for every moment and every day to more people" to further sustainable development centered on "more nutritious products, a healthier life, and more sustainable earth", and thus achieved many impressive results.

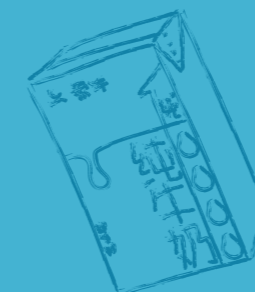
Producing more nutritious products is our consistent pursuit. Taking innovation as our core competitiveness, we promote the upgrading of products to high-end, nutritious and healthy. In 2018, we launched more than 40 new products, which greatly enriched people's nutritional needs. We worked hand-in-hand with the upstream and downstream of the industry chain to safeguard the quality of every link and element "From Grass to Glass", while constantly improving the global layout, committed to building a global industrial chain connecting all aspects from milk source to production and sales, from R&D to quality control.

We always believe that guiding consumers towards a healthier life is the responsibility of every dairy company. We deeply understand that hunger and malnutrition are important factors hindering human development. We actively promote solutions to nutrition problems in poverty-stricken areas. In response to the "Healthy China" strategy and the call for targeted poverty alleviation, we worked together with the United Nations World Food Program to roll out the "Inclusive Nutrition Plan". In addition, Mengniu and the Research Institute of Food and Nutrition Development under the Ministry of Agriculture and Rural Affairs of the PRC jointly published the *Blue Book on Inclusive Nutrition for Children in Rural China*, the objective of which is to help improve provision of nutrition to children in rural area, especially poor children, and contribute to the success of the "Healthy China 2020 strategy".

A sustainable planet is the cornerstone of human development in the future. We adopt the philosophy of green and low-carbon manufacturing in production management by continuously lowering the greenhouse gas and waste emissions in order to promote the sustainable development in industry. Mengniu has established the Energy Conservation and Emission Reduction Committee headed by the CEO of the Group, and built up a three-level "Group-Business Divisions-Factories" management structure. During the year, Mengniu promoted the integrated utilization of energy and continuously increased the proportion of green and renewable energy such as solar energy, wind energy and biomass energy, such that the total greenhouse gas emission can be efficiently reduced. In 2018, with the outstanding performance in energy saving and emission reduction, Mengniu was awarded "Climate Leader Plant" by Energy Foundation and China Council for an Energy Efficient Economy, being one of the four enterprises in the first batch to win this reputation and the sole enterprise with this honor among the domestic dairy industry.

Dairy industry is an indispensable industry for a healthy China and strong nation. It is also an essential premise and important symbol for achieving the dream of "Healthy China". Mengniu is committed to becoming "a century-old, consumer-centric and innovation-led health and nutrition food company" that constantly pursues excellence and builds high-quality brands to help promote national brand innovation and international quality of dairy products. In the future, Mengniu will continue to follow its vision for sustainable development of "Promise a Healthier World". While providing healthy and nutritious products for human beings, we will pursue sustainable common development of human and nature, pass on to each node in the upstream and downstream of the industrial chain the green concept of "originating from nature, sharing nature, and giving back to nature", and make unremitting efforts to jointly safeguard our home of humanity.

CEO and Executive Director
Lu Minfang



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About Mengniu

China Mengniu Dairy Company Limited (the “Company”; stock code: 2319) and its subsidiaries (the “Group” or “Mengniu”) manufacture and distribute quality dairy products in China. As one of the leading dairy product manufacturers in China, Mengniu provides diversified products including liquid milk (such as UHT milk, milk beverages and yogurt), ice cream, milk formula and other products (such as plant-based protein beverage and cheese). Mengniu made it on the “Global Dairy Top 20” list published by Rabobank, placing itself among the top 10 of dairy industry in 2017 and 2018 consecutively. By the end of December 2018, the Group’s annual production capacity of dairy products reached 9.75 million tons. In March 2014, Mengniu became a Hang Seng Index constituent, making it the first blue chip Chinese dairy product enterprise.

Corporate Culture



Vision

To be a century-old, consumer-centric and innovation-led health and nutrition food company



Mission

Focus on nutrition and health, deliver a drop of happiness for every moment and every day to more people



Value

Integrity, innovation, passion, and openness

Major Awards and Achievements

Social Recognition

- Included in the “Global Dairy Top 20” list published by Rabobank for the tenth consecutive year and climbed into the world’s top 10 for the second consecutive year
- Ranked among the top 3 for “The Best CEO”, “The Best CFO” and “The Best Investor Relations Program” in the consumer/staples category published in the 2018 All-Asia Executive Team Survey conducted by the Institutional Investor magazine
- Granted the “Blue Book of Poverty Alleviation for Enterprises (2018) – Excellent Case in Poverty Alleviation” by the State Council Leading Group Office of Poverty Alleviation and Development and the Chinese Academy of Social Sciences
- Honored with the “Asia Responsible Entrepreneurship Award 2018 – Social Empowerment Category” conferred by Enterprise Asia
- Mengniu was one of the first four enterprises to receive the honorable title of “Climate Leader Plant” from the Energy Foundation and China Council for an Energy Efficient Economy, making itself the only enterprise to receive this honor in the dairy product industry in China
- With the award of “2017-2018 Top 10 Food Safety Enterprise” granted by the Organizing Committee of China Food Safety Annual Conference, Mr. Lu Minfang, Chief Executive Officer, was awarded the title of “2017-2018 Outstanding Food Safety Entrepreneur”

Brand Recognition

- Ranked among the top 20 in the BrandZ™ 2018 list of the most valuable Chinese brands
- Ranked among Brand Finance’s list of the top 500 most valuable brands in the world
- On the “China Brand Power Index (C-BPI)” list published by the Ministry of Industry and Information Technology of the PRC, Mengniu’s chilled yogurt held the championship in China’s yogurt industry for the eighth consecutive year and Yoyi C retained the championship in C-BPI Brand Power in the probiotics drinks industry
- Mengniu was ranked second on the list of “Most Chosen Brands in China” in the consumer research statistics of Kantar Worldpanel

Product Recognition

- Milk Deluxe Organic Milk and Reeborne Organic infant milk series respectively garnered the “Gold Award” and “Quality Formula Award” conferred by the 12th Biofach China
- The pure milk of Modern Dairy won the Gold Award from Monde Selection for the fifth consecutive year
- The milkshake milk product Burnlooking won the “Innovation Award for the First Weight Management Milk” and the Champion BB-12 yogurt won the “Innovation Award for the First Dual Functional Healthcare Yogurt” in the 12th Inner Mongolia International Dairy Expo and Summit
- Yashili International Infant Nutrition Co., Ltd. was granted the title of “Benchmark Enterprise for Dairy Product Quality and Safety Management” jointly awarded by the China Dairy Industry Association and Chinese National Committee of the International Dairy Federation



More nutritious products

Total tax payment
4.41 billion yuan

Number of new products launched
40+

Number of incident of non-conforming products entering the market is **0**

Product recall rate **0**



Production capacity
9.75 million tons



100%
of the plants are certified to ISO9001



100%
of products are monitored for quality and safety



100%
of the raw milk are sourced from intensive and scaled dairy farms

A healthier life

Inclusive Nutrition Plan



Covering **21,880** poor students and left-behind children in

91 counties, **1** Municipality, **18** provinces



Donated **200** thousand sets of "Student Milk"



"Golden Key of Milk Cow" Technology Demonstration

Project **19** sessions in total covering **1000+** ranches, **4500+** people

More sustainable earth



Built **4** "National Green Factory"

Annual water conservation **960,000** tons



"University of Ranchers" program
Free training for **10,000+** people



Number of employees in China mainland, Hong Kong, Oceania and Southeast Asia
41,031

Employee training rate
100%
Training hours per capita
41.97



Annual use of methane **2,140,000 m3**



Annual standard coal saving **4000+ tons**



Annual solar power generation **2.8961 million kWh**

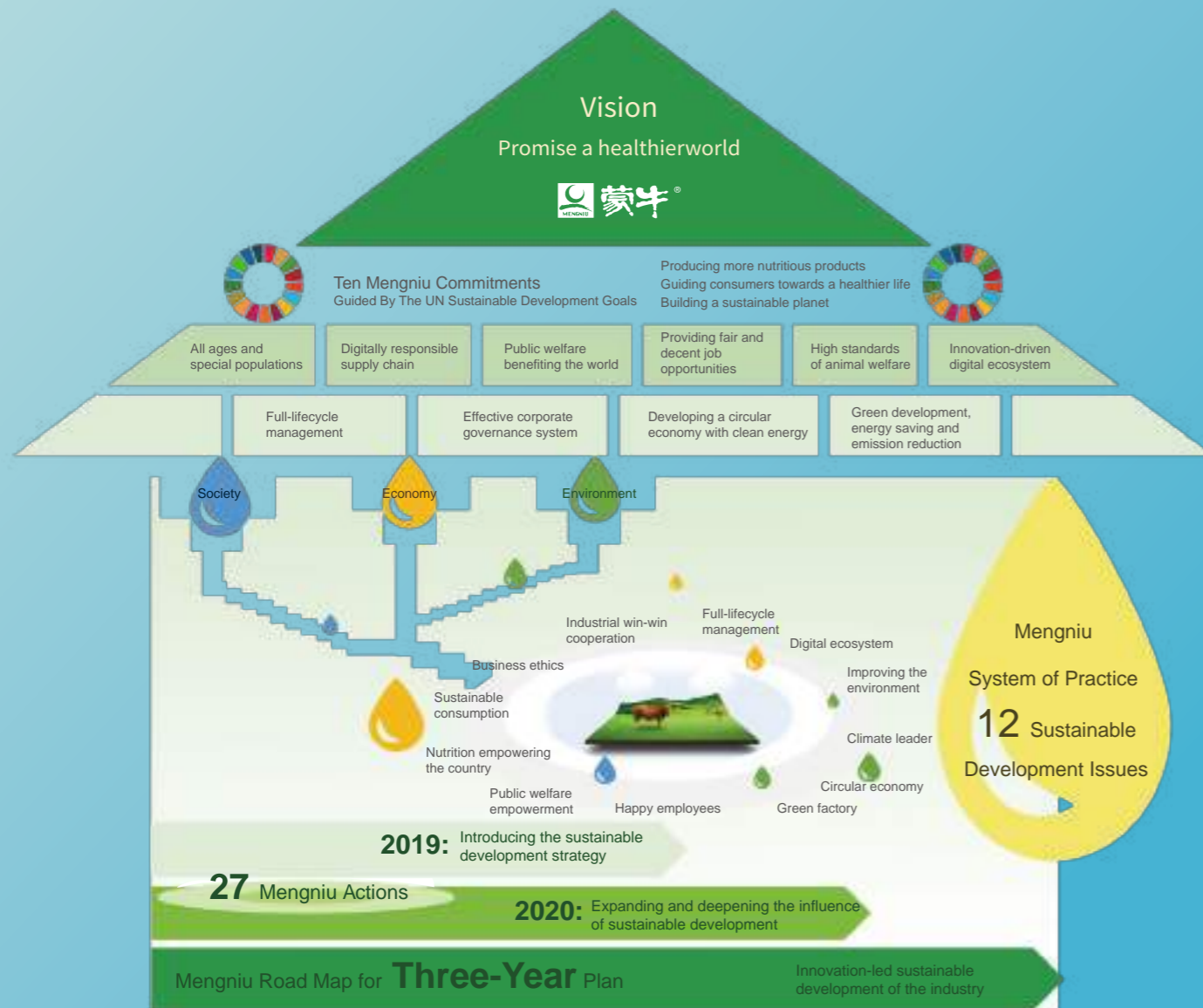
1 Sustainability Strategy

SUSTAINABILITY STRATEGY

As a leading dairy company and responsible corporate, Mengniu is making unswerving efforts to achieve the sustainable development goal of producing more nutritious products, guiding consumers towards a healthier lifestyle, and building a sustainable planet for human beings. Combining the UN Sustainable Development Goals with the Company's operational development, Mengniu has gradually developed its sustainable development strategy.



Sustainable Development Model



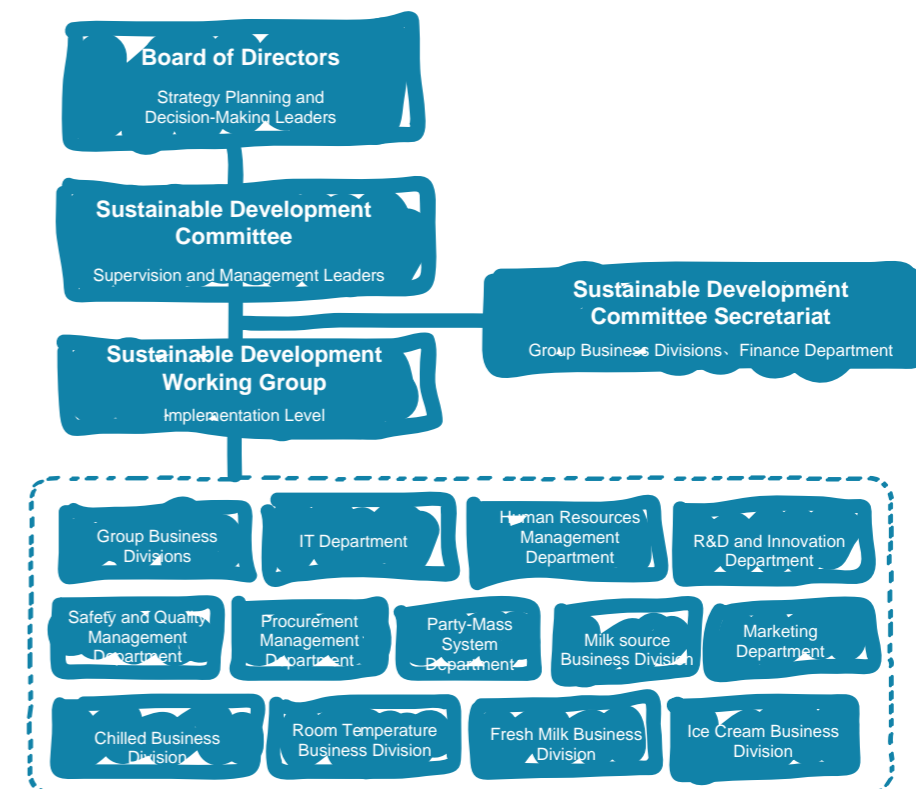
Guided by the vision of "Promise a Healthier World", Mengniu's sustainable development strategy is committed to achieving more nutritious products, a healthier life, and a more sustainable planet.

We undertake the UN 2030 Sustainable Development Goals by officially releasing ten sustainability commitments covering the economy, society and the environment, and have built a company-wide sustainable development system with 12 sustainable development issues. Mengniu will combine its core business strengths to create sustainable value for all stakeholders.









Sustainability Management

In order to promote the implementation of Mengniu's sustainable development strategy and strengthen the management of corporate sustainability, the Company has established a three-level sustainable development management system centered on the Board of Directors, the Sustainable Development Committee and the Sustainable Development Working Group, which respectively take charge of strategic planning and decision-making, supervision and management, and implementation of sustainable development. The Group General Affairs Department and the Finance Department are the secretariat of the Company's Sustainable Development Committee, responsible for management and allocation of corresponding resources for the Company's day-to-day affairs for sustainable development.

<p>Strategy Planning and Decision-Making Leaders</p>	<p>The Board of Directors is responsible for making medium-term and long-term sustainable development strategic plans, examining and approving development-related policies and key project advancements, ensuring assessment of and response to the Company's sustainability risks and opportunities, and reviewing annual sustainability work reports and plans.</p>
<p>Supervision and Management Leaders</p>	<p>Li Pengcheng, the Company's vice president, is the director, responsible for management implementation and signing on behalf of the Sustainable Development Committee. The Committee consists of the Company headquarters' heads of various departments and business divisions. As the secretariat of the Company's Sustainable Development Committee, the Group General Affairs Department and the Finance Department are responsible for taking the lead in fulfilling the functions of the Committee.</p>
<p>Implementation Level</p>	<p>The Sustainable Development Working Group is under the Sustainable Development Committee and has the head of the Group General Affairs Department as the director. Heads of the Company headquarters' various departments and business divisions are members of the working group, responsible for implementing various tasks for sustainable development, including report preparation assistance, work plan development, stakeholder communication, and exchanges and training, etc.</p>



Stakeholder Engagement

Stakeholders	Common goals	Expectations	Communication and response channels
 Shareholders and investors	<ul style="list-style-type: none"> Preventing business risks Maintenance and appreciation of asset value New markets and opportunities Robust growth in investment returns 	Healthy and sustainable development of Mengniu and create more value	<ul style="list-style-type: none"> Annual report, interim report and announcements Roadshows Special meetings Investor relations website
 Government and regulatory bodies	<ul style="list-style-type: none"> Compliance Paying tax in accordance with the law Contributions to local economic development 	Demonstration effects and contribution to dairy industry development by Mengniu	<ul style="list-style-type: none"> Supervision and assessment Proactive tax payment Special meetings
 Consumers	<ul style="list-style-type: none"> Comprehensive customer service Smooth communication channel Diversified Products Selection 	Comfortable and enjoyable shopping experiences and more convenient purchases	<ul style="list-style-type: none"> Company Weibo and WeChat Transparent factories Interaction 400 service call Official Website
 Suppliers	<ul style="list-style-type: none"> Open, fair and just procurement Integrity and honesty Information confidentiality 	Contribute to the prosperity of dairy industry in China together with Mengniu	<ul style="list-style-type: none"> Supplier meetings Supplier assistance Supplier training
 Distributors	<ul style="list-style-type: none"> Mutual benefit Shared growth 	Hope to form a stronger band and achieve win-win cooperation with Mengniu with Mengniu's support.	<ul style="list-style-type: none"> Distributor meetings Distributor satisfaction surveys Decision management committee Customer communications platform
 Environment	<ul style="list-style-type: none"> Environmental protection Low-carbon production 	Effective use of resources, energy conservation, emission reduction Mengniu as a "green messenger" practicing ecological protection, and bringing the concept of green ecology to consumers	<ul style="list-style-type: none"> Government's environment related information communication platform Company Weibo
 Employees	<ul style="list-style-type: none"> Health and safety Salary and benefits Career development platform Work-life balance 	Decent work in a happy and harmonious working environment, that provides a sense of well-being	<ul style="list-style-type: none"> Management communication emails Worker's Congress Training and communications
 Communities	<ul style="list-style-type: none"> Promoting employment Driving local economic development Poverty alleviation 	Using the influence of large-scale dairy enterprises to encourage participation in community development	<ul style="list-style-type: none"> Increase employment Drive local development of related industries Local infrastructure construction Targeted poverty alleviation Charity

Materiality Analysis

In order to truly understand the expectations and concerns of stakeholders and respond to the appeals of stakeholders in a timely manner, the Company organized stakeholder communication and materiality analysis of their concerns and appeals to identify material issues that are highly relevant to stakeholders and the Company's sustainable development, and effectively communicated and responded to the expectations of different stakeholders.

Our materiality analysis process was as follows:

Identification

According to the Company's priorities, industry characteristics, and social responsibility standards, we established the Company's repository of sustainability issues.

Research and Interview

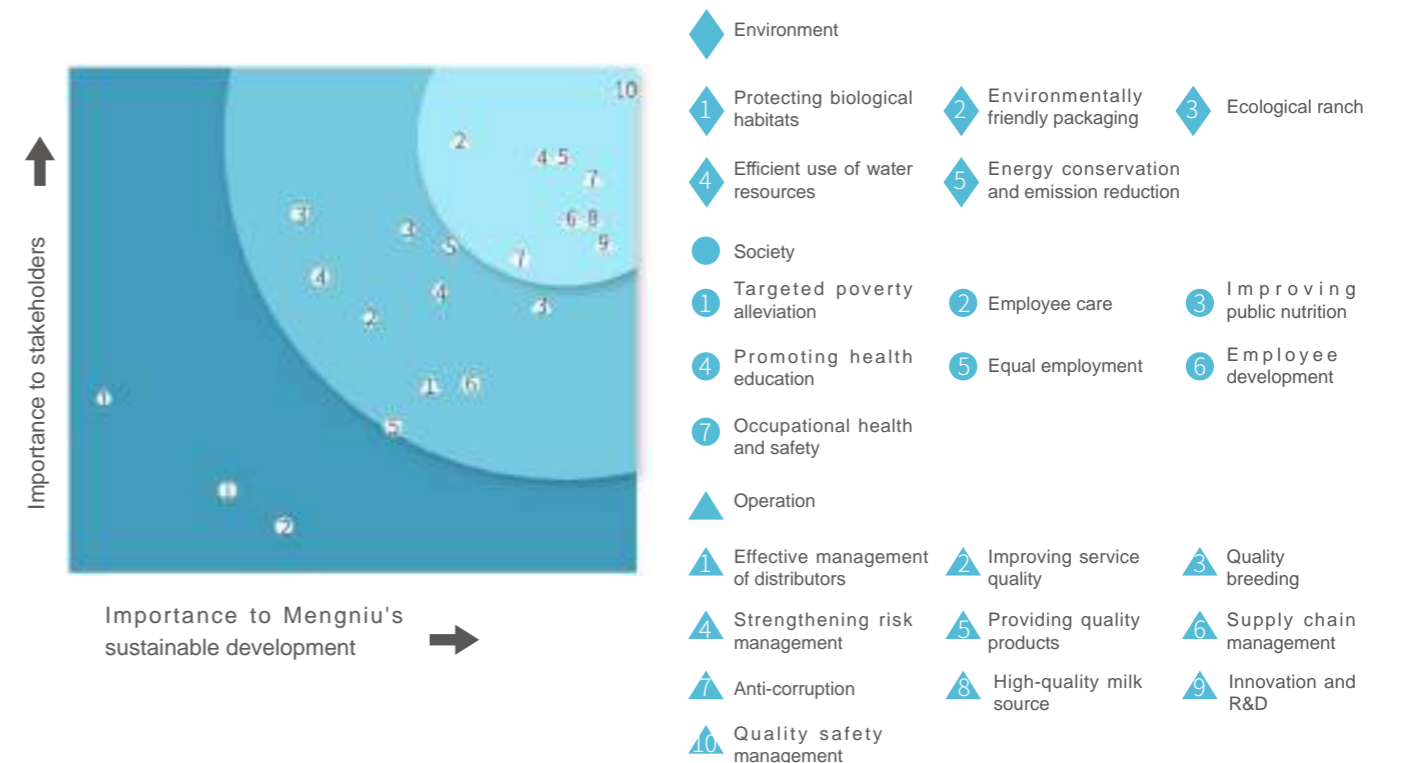
We conducted surveys on key stakeholders such as shareholders, consumers, suppliers, and communities to identify their concerns.

Screening and Assessment

Issues were screened based on global sustainable development goals, degree of stakeholder attention, and importance to Mengniu.

Review and Confirmation

The Company's management and experts reviewed and selected the material issues for disclosure.





To Achieve
a Brighter
Future

OUR COMMITMENTS: TO ACHIEVE A BRIGHTER FUTURE

Mengniu strives to improve the enterprise management system by establishing a pluralistic governance structure, clarifying the responsibilities and decision-making procedures at all levels, and ensuring efficient and stable operation with a reasonable governance structure, strict risk management and control measures, and a good corporate ethical culture.

Mengniu's Commitments



Establishing an effective, responsible and transparent corporate governance system to help build a better business community

Mengniu's Action in 2018

Mengniu continuously strengthened corporate governance and risk management, and achieved responsible governance by strengthening effective management of business ethics and anti-corruption.

Corporate Governance

With the help of three strategic shareholders of China COFCO, France Danone, and Denmark Arla Foods, Mengniu has established a pluralistic governance structure to fully mobilize resources on all fronts to coordinate and improve corporate governance.

The Board of Directors consists of ten directors, including two executive directors, four non-executive directors and four independent non-executive directors. The Board is primarily responsible for formulating the overall strategy and policies of the Group, setting objectives for performance and management, assessing business performance, and monitoring management performance. The Board of Directors is affiliated by four board committees: the Audit Committee, the Nomination Committee, the Remuneration Committee, and the Strategy and Development Committee. The board committees examine the specific affairs of the Board and assist it in fulfilling its duties to ensure that the Company's decisions are rigorous and efficient. Mr. Lu Minfang is the Company's CEO and executive director.

The Company continuously improves the information disclosure mechanism and actively promotes communication with investors. It regularly visits investors, holds meetings with investors to update the Company's latest news, and informs investors of operating results in the form of announcements and briefings. It conducts large-scale roadshows and updates in a timely manner the Investor Relations website to ensure that investors have access to the Company's information, latest news and reports, thereby maintaining healthy and stable investor relations. Shareholders may submit independent resolutions on important matters such as election of directors through the general meeting of shareholders, and make decisions by means of shareholder voting. The Company continuously unblocks channels for inquiries and suggestions, trying its best to respond to shareholders in a timely manner.

Risk Management

Over the years of development, The Group has set up a risk management framework comprising Risk Control Committee, Risk Management Department, and risk management commissioners of each business division, and has clearly outlined the responsibilities of each risk management unit. The Group, through complying with the risk management framework under COSO (Committee of Sponsoring Organizations of the Treadway Commission) and by ways of introducing external consultation bodies for providing guidance and training on risk management and advocating the culture of risk management, etc., has gradually enhanced the professional standard of the risk management staff.

The Group has established a comprehensive framework for risk management, with a fundamental standard of risk management basically formulated, adopting a rotational management method of risk identification, risk evaluation, risk responses, risk control and risk reporting to commence the work on risk management, where the Audit Committee, the Risk Control Committee of the management and the Risk Management Department of the Group are responsible for the supervision and implementation of such measures. The Risk Management Department of the Group organizes various business units and functional departments every year to identify comprehensively and analyze accurately risks in seven aspects, namely, the Group's strategies, market (including marketing risks), finance, operation, law and compliance, quality and food safety as well as sustainable development. It focuses on the control over the significant risks at the Group level and the business division/function level, and has formulated appropriate risk response strategies to effectively reduce and avoid the adverse impact brought by such significant risks to the Group's strategic objectives, operation objectives and sustainable development.

In 2018, the Company's risk identification coverage reached **100%**, and material risk tracking rate reached **100%**.



Business Ethics

Mengniu strictly abides by the laws and regulations of each place of operation. In mainland China it mainly follows the *Supervision Law of the PRC*, *Contract Law of the PRC*, *Company Law of the PRC*, *Anti-monopoly Law of the PRC*, and *Law of the PRC against Unfair Competition*. For suppliers, senior management, management personnel and all employees of Mengniu, Mengniu has respectively formulated relevant policy systems such as *Anti-Commercial Bribery Agreement*, *Senior Management Code of Conduct*, *Ten Regulations on Management Integrity and Self-discipline*, and *Administrative System for Discipline Inspection and Supervision*, clarifying the Company's anti-corruption policies including violations, ways to deal with violations, and ways of auditing, etc. All Mengniu subsidiaries must implement these policies accordingly. In 2018, Mengniu had no litigation caused by unfair competition.



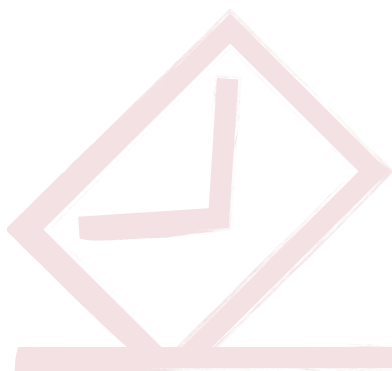
✓ Specialty Management

Mengniu has set up the Department on Discipline Inspection and Supervision to manage various business ethics and corruption issues.

<p>The Company signs business contracts with all suppliers (including contract security providers) on the basis of fairness and impartiality, and the two sides sign an <i>Anti-Commercial Bribery Agreement</i> that binds employees of both sides. Suppliers must strictly abide by the <i>Anti-Commercial Bribery Agreement</i> and relevant regulations of the Supplier Management Department. The Department on Discipline Inspection and Supervision reviews the implementation, and if there is any violation by a supplier, the supplier will be included in the supplier "blacklist".</p>	<p>The Company strictly abides by the <i>Regulations on Disciplinary Actions of the Communist Party of China</i>. It strictly prohibits paying persons engaged in official duties and their relatives (for instance, their spouses, their children and children's spouses) so-called "convenience" fees of various kinds, including: gifts, cash payments, consumer cards, and securities, equity, other financial products that are obviously beyond the normal courtesy. At the same time, Mengniu in the <i>Administrative System for Discipline Inspection and Supervision</i> explicitly prohibits employees from accepting any form of rebates, agency fees, and benefits in economic and business dealings and meetings. In 2018, there was no payment of convenience fees or facilitation fees and no political donation or lobbying expenditure to any government or political party in and outside China.</p>	<p>The Company requires employees to strictly abide by business ethics and labor discipline. According to the <i>Administrative System for Discipline Inspection and Supervision</i>, those with violations of organizational and personnel discipline during work shall be warned, dismissed, or terminated of labor contracts according to the seriousness of violation.</p>
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✓ Complaining and Whistle-Blowing

The Company's Department on Discipline Inspection and Supervision is responsible for investigating and handling reports of various violations, misconduct and corruption, and has announced whistle-blowing channels to partners and employees.



The Company's website	The whistle-blowing channels (including telephone and email) are made public.
Official WeChat account	An anti-corruption module was added to the "Mengniu Voice" column, announcing whistle-blowing methods and scope of acceptance.
<i>Anti-Commercial Bribery Agreement</i>	The Company signs an <i>Anti-Commercial Bribery Agreement</i> when signing a business contract with a supplier, announcing the whistle-blowing methods.
Major meetings	Notices are issued at major meetings annually such as customer meetings and employee meetings to announce the whistle-blowing methods.
Daily education	Whistle-blowing methods are announced during internal anti-corruption training.
Typical case sharing	Two circulars of typical cases on discipline inspection and supervision are issued as scheduled every year, in which the whistle-blowing methods are announced.
Bidding	Whistle-blowing methods are announced before the bid opening meeting.



✓ Whistleblower Protection

The Company clearly stipulates in the *Administrative System for Discipline Inspection and Supervision* that the Department on Discipline Inspection and Supervision strictly keeps confidential the whistleblower's name, employer, home address and other relevant information and the content of report, and includes report materials in confidential management. It is strictly forbidden to transfer the report materials to the reported department or the reported person, and unrelated persons may not transcribe, copy or destroy the report materials. When the Department on Discipline Inspection and Supervision accepts the report or verifies the report with the whistleblower, it shall ensure the personal safety of the whistle-blower and not publicly expose the identity of the whistleblower. In promoting and reporting rewards for a whistleblower with merit, the Company shall not publicize the name and department of the whistleblower except with the consent of the whistleblower.

✓ Complaint Handling

Investigation of relevant personnel will be carried out immediately after the Company's disciplinary inspection and supervision personnel identify corresponding problems as reported or in the process of inspection. According to the seriousness of the problem, the discipline inspection and supervision staff may suspend relevant personnel for investigation with the approval of superiors of the Investigation Department, and at the same time, access the accounts of dealers, suppliers and other customers after authorization. The Investigation Department will issue the results of investigation, make recommendations on punishment, require the responsible department to implement the punishment, and make public the case. In 2018, **100%** of problem clues were reviewed and **100%** of cases were settled by Mengniu.

✓ Clean Culture

Mengniu has set up a department on discipline inspection and supervision at its headquarters, various business divisions and affiliated enterprises, which is responsible for clean governance within the enterprise, so that the construction of clean culture covers all employees. In 2018, the Mengniu Committee for Discipline Inspection and Supervision organized **54** sessions of employee training on ethical standards, attended by **6,972** people in total.

Mengniu vows to continuously improve the Group's management of anti-corruption by joining external leading anti-corruption initiatives and following leading anti-corruption standards such as the World Economic Forum Partnering against Corruption Initiative (PACI), Transparency International's Business Principles for Countering Bribery, leading industry-specific anti-corruption standards and membership in other external anti-corruption initiatives.

To Build a Healthier Future

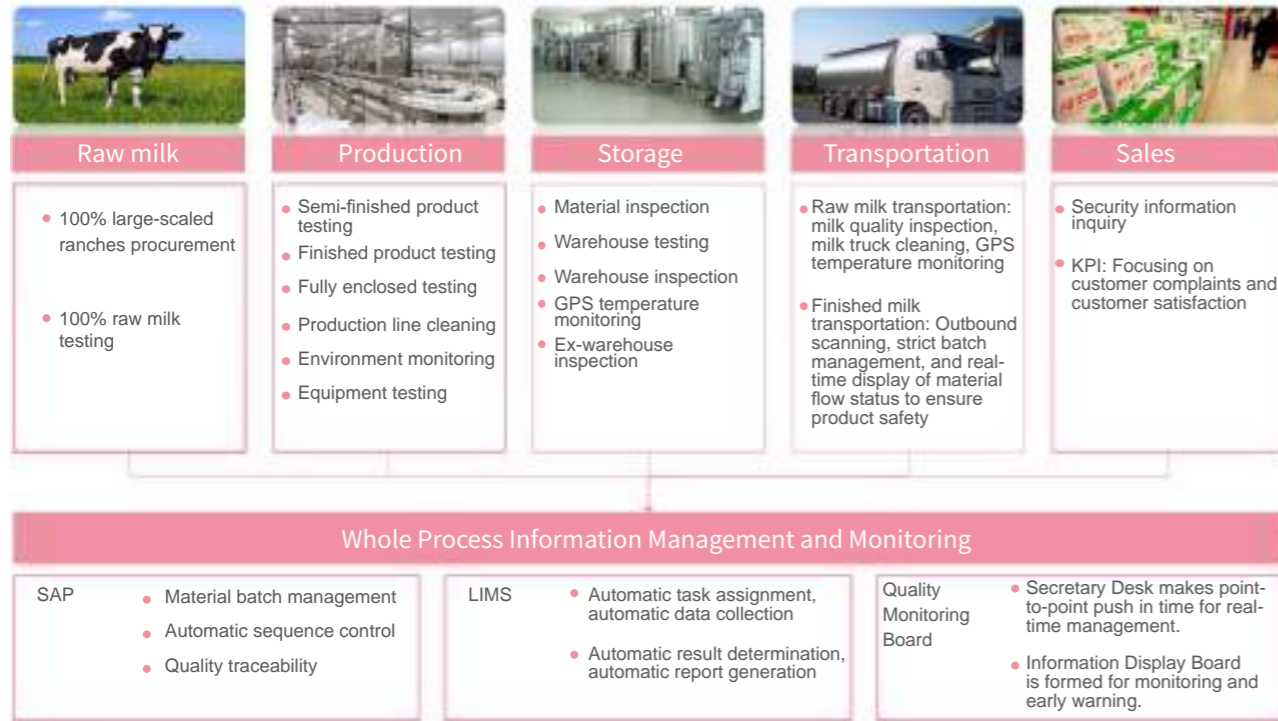
Our Commitments: To Build a Healthier Future

Driven by key factors such as quality and innovation, Mengniu is moving forward to create a world-class Chinese dairy brand with world-class quality.

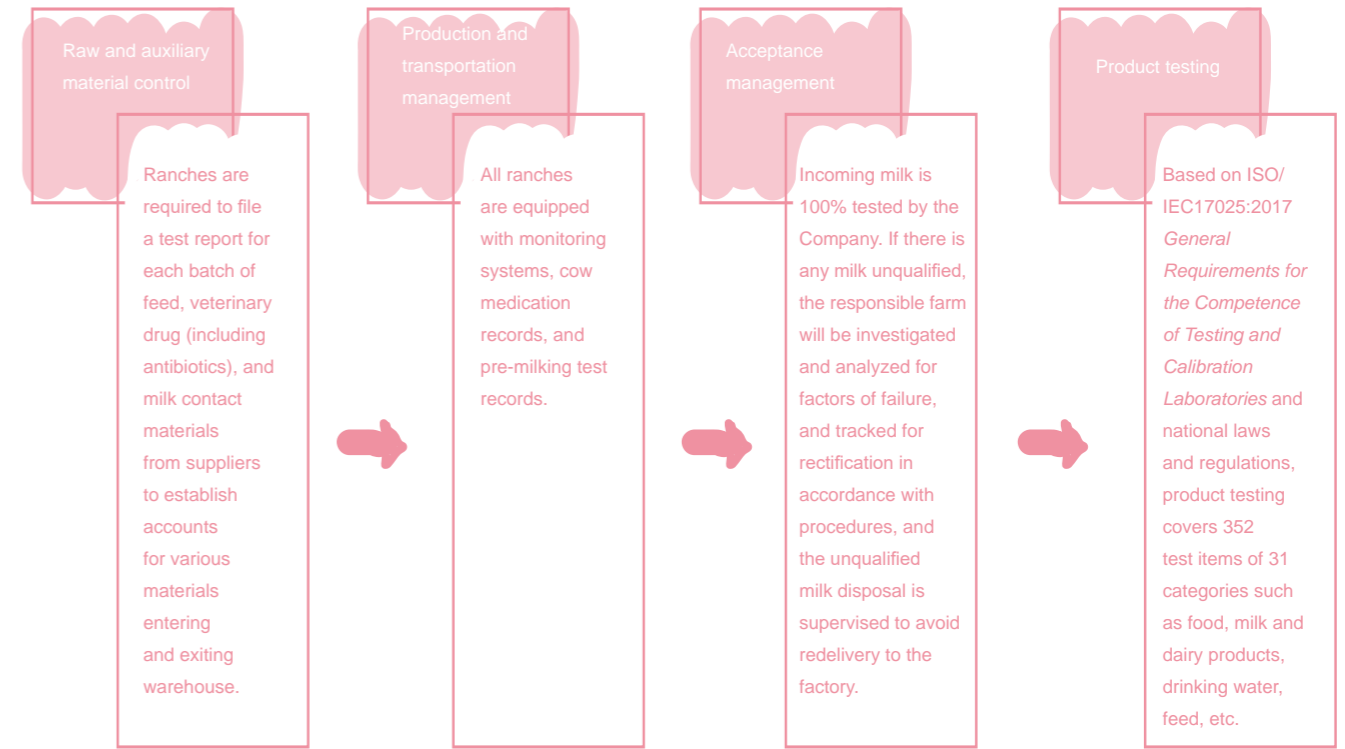
	Mengniu's Commitments	Mengniu's Action in 2018
	Providing products that meet the needs of all ages and special populations and providing sustainable health and well-being for all.	Mengniu promoted a healthy lifestyle with emphasis on product development and innovation, focusing on providing consumers with higher-quality, more nutritious, healthier, and more diverse dairy products and improving the overall health of the public.
	Achieving "larger, better and more economical production" through full-lifecycle product management and responsible marketing.	Mengniu improved the quality and safety management system to create quality milk through strict standards and craftsmanship, achieving quality traceability and risk management throughout the product life cycle, so consumers could enjoy good quality milk, consumers enjoy good quality milk.
	Protecting the health and rights of dairy cows with adherence to high standards of animal welfare.	Mengniu adhered to high standards of animal welfare, protected the health and rights of dairy cows, and strengthened the eco-management of ranches.

Superior Quality

Mengniu regards quality as the lifeline of the brand. From the source to end customers, we implement the highest standards in all aspects of the industrial chain, and make every cup of milk with the craftsmanship of constantly pursuing excellence.



Mengniu controls every point of milk production with a strict testing system:



✓ Safety First

On the principle of the *Food Safety Law of the PRC*, Mengniu has accelerated its move to comply with international standards and upgraded food safety management according to the ISO9001, FSSC22000, HACCP and other systems. It established a three-level quality and safety management structure from the Group to business divisions and factories to form a quality and safety management system covering the entire industry chain of milk source – production – consumers, which has fundamentally and effectively guaranteed the quality and safety of Mengniu's entire industrial chain.



In order to reduce and avoid the harm of unsafe products and protect the public health and life safety, the Company has formed a systematic product recall management system, which stipulates detailed management requirements in power and responsibility, grading, information transmission, decision-making, etc. Regular rehearsals are held every year. Through detailed management mechanisms, we ensure efficient, reasonable and orderly handling of food safety incidents to protect consumer rights.



In March 2018, Mengniu "Student Milk" pure milk passed the green food certification.



On March 27th, 2018, Modern Dairy pure milk for the fifth time won the gold award of the Monde Selection, which is known as the Noble Prize in the food industry

The number of non-conforming products entering the market in 2018 was **0**

Product recall rate in 2018 was **0**

The proportion of manufactured product batches that received quality and safety test in 2018 was **100%**

✓ Grass-to-Glass Traceability

To create a modern traceability system and give milk an "identity card" is an important part of quality control. In 2018, Mengniu focused on building a comprehensive information management platform for quality assurance, achieving digitalization, visualization, precision and efficiency of quality management. Based on the SAP system and LIMS system, the Company serializes the quantity of materials/products, test results, and the information of factories, suppliers (ranches) and dealers through batch correlation codes to realize end-to-end and full-chain information traceability.

Mengniu's Route of Grass-to-Glass Traceability

Raw Milk Sourcing Control

- A digital milk source platform was established. For suppliers with unqualified indicators or receiving threshold warnings, the platform will combine operational data and related disqualification factors to find the reasons through comprehensive analysis, so as to accurately and quickly locate and solve the problems.

Strict Ranch Management

- 100% of raw milk comes from intensive and large-scale ranches, effectively ensuring the quality of milk sources.
- Since 2012, together with strategic shareholder Arla Foods, we have implemented precise control and adjustment of all actions of dairy cows through digital technology, controlling the quality of milk from the source.

Refined Production

- We "arm" milk with intelligence to make every drop of milk from lean management of modern, intelligent factories.
- In the aspect of milk acceptance management, incoming milk is 100% tested by the Company. If there is any milk unqualified, the responsible farm will be investigated, analyzed, and tracked for rectification in accordance with procedures

Safe Storage and Transportation

- We make innovation to develop diverse management modes. Through a variety of transportation management methods such as QR code, bar code, RFID chip, etc., we improved management efficiency and ensured the quality of our products.

Fast Circulation

- We signed a framework cooperation agreement with Alibaba LST to establish a data-based sales management information system to make circulation faster and more efficient.
- We joined hands with Jingdong to build a "Jingdong Blockchain Anti-counterfeiting Traceability Open Platform" to trace products more effectively.

Case

Promoting the implementation of "one box one code" traceability project for Student Milk to unblock the terminal for a traceability cloud

At the beginning of 2018, Mengniu launched the "one box one code" traceability project for Student Milk, which collects data throughout the circulation process to improve management accuracy. By the end of 2018, the Mengniu Student Milk Traceability Platform completed the pilot application, achieving precise traceability management with box as the smallest unit and more rapid emergency response. In addition, Mengniu will build a grass-to-glass traceability cloud by establishing a unified traceability management platform.



✓ High-Quality Milk Source

High-quality milk source is the key to product quality. We strictly abide by the Food Safety Law of the PRC, the Product Quality Law of the PRC, the Animal Husbandry Law of the PRC, the Animal Epidemic Prevention Law of the PRC, the Agricultural Product Quality and Safety Law of the PRC. In the respect of milk input management, service center management, and milk supply management, we established Management System of Supplier Inputs, Service Center, and Milk Suppliers Quality and Safety. We rely on the 100-year experience of Arla Garden in ranch management and Arla Foods' advanced ranch standardization procedures to build a "Mengniu Ranch Quality and Safety Management System", achieving 100% coverage of ranch and milk source practitioners. The system is aligned with Arla Foods in dairy cow nutrition, quality and safety, animal welfare and nutritional environment, and implements the international most stringent food safety management standards certified by New Zealand AsureQuality.

We believe that high-quality milk comes from happy cows. Mengniu develops large-scale, modernized and standardized farming, and carries out full-process management from the aspects of dairy cow breeding, safety and epidemic prevention, and raw milk quality control.

In the management of ranches, Mengniu fully adopts the concept of animal welfare, and respects the physiological characteristics of dairy cows. We require farms to have independent delivery rooms, calf raising areas, milking equipment, etc. to improve the welfare of dairy cows. At the same time, cooperative farms are required to ensure the water quality has met the national standard of drinking water and hire a third-party testing organization to issue a water sample testing conformity report confirming the drinking water standards (conventional items) are met. In addition, the Company cooperated with Arla Foods to jointly develop the SOP for ranches to guide farming. Every year, we organize ranches to carry out regular fly-killing operations, heat stress prevention and control, and cow bed leveling, which improves the yield and quality of milk and the welfare of dairy cows.





Calve Raising:

- High-quality dairy cows are carefully selected and imported from overseas by professional dairy cow breeders. We apply advanced breeding techniques and management techniques to carefully raise them from the birth.
- We provide clean delivery environment and carry out comprehensive delivery management. We care for the calves in an all-round manner, and place the calves in the temporary new-born calve area for management.
- We make detailed rules for the diet of calves after the lactation period, and make plans covering the quality, temperature, humidity, cleanliness and nutrition of the diet.

Quality Feed:

- We establish strict feed screening, control mechanisms and various feed quality control standards. At the same time, we strictly select the suppliers of feed ingredients, and give priority to suppliers with stable quality, ex-work inspection capability or a third-party certified quality management system.
- We use the CPM & AMTS cow formula software (CPM-Dairy) to classify the formula, in consideration of the physiological and nutrient requirements, production performance, lactation pattern and specific physiology of dairy cows, and adjust the nutritional composition of the formula based on the practices of the herds.
- We scan the feed repeatedly during the feeding process and focus on the management of the storage environment. Only the qualified concentrated feed and coarse feed can proceed to the delivery and feeding process. The indicators of the total mixed rations (TMR) in the feeding lanes are inspected and monitored daily by professionals.

Comfortable Environment:

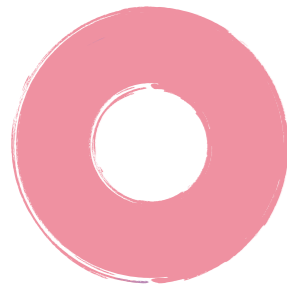
- We adopt a group feeding mode and select different bedding materials according to different climatic conditions.
- The administrators keep the beds clean, dry and comfortable, and propose specific requirements for the impurities, moisture, and quality of different bedding materials in different seasons and regions.
- The ventilation ducts are used when the roller shades are closed to keep warm and ventilated in winter, reducing the incidence of respiratory disease.
- Cleaning up the manure channel in a timely manner helps relieve the pressure of calves bedding and reduce the incidence rate.
- We reduce the incidence rate based on the principle of feeding and prevention first and supplementing by treatment. The bedding of dairy cows is sterilized regularly, and milk barrels are washed and dried in a timely manner.

Use of Veterinary Drugs:

- We established a veterinary drug (including antibiotics) supplier entry and process management system, which stipulates rigorous testing and screening of ranch drug manufacturers. A special working group for veterinary drug control was also established to carry out five-level screening for veterinary drug risks in 28 milk source bases around seven dimensions such as risk management, veterinary drug manufacturer review, sampling of manufacturers' products, etc.
- We strictly control the use of veterinary drugs and antibiotics. It is strictly required that the use of antibiotics is limited to treatment of diseases rather than breeding.
- To ensure the safety of raw milk, all lactating cows treated with conventional antibiotics during the treatment period need to be 100% tested after the last dose. A treated cow's milk should be discarded for a certain period of time.
- Antibiotic residual content is an important indicator for the quality of raw milk. Mengniu does not accept raw milk containing any antibiotics.

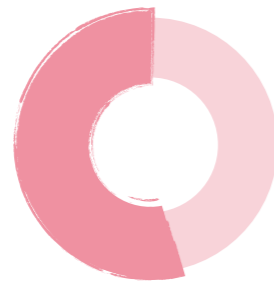
Driven by Globalization

As a pioneer in the high-quality development of China's dairy industry, Mengniu has made internationalization one of its core development strategies. We advocate the construction of "Global Dairy Community". By persisting in innovation, pooling global resources, and relying on cooperation with international dairy companies and top industry-university research institutions, we continuously integrate international high-quality dairy resources, upgrade product development and industrial chain, and create world-quality Chinese dairy products for consumer and share the future of the global dairy industry.



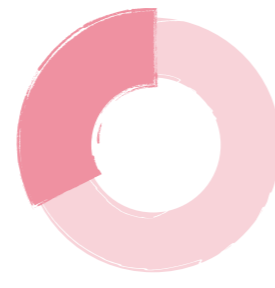
100%

factories passed ISO 9001 quality management system certification



58%

factories applied for and passed the HACCP system certification.

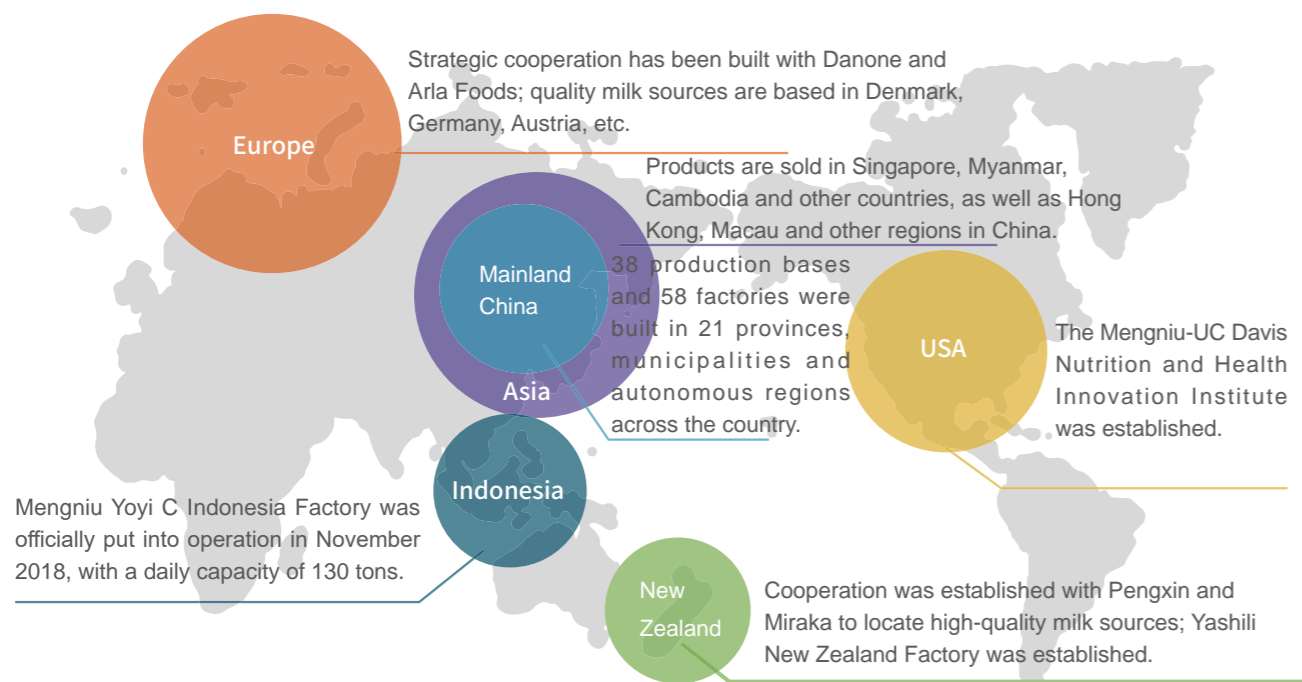


37%

factory laboratories passed the ISO/IEC 17025 certification

✓ Overseas Layout

As China's first dairy company to sell dairy products to foreign countries and to make layout overseas across the industry chain, we have successfully created a model of Chinese dairy enterprises going global:



Case

The first overseas liquid milk plant in Indonesia was put into operation

In November 2018, Mengniu's first overseas liquid milk factory in Indonesia was officially put into operation, and the products were fully launched in major cities in Indonesia in December. In the next five years, the plant is expected to provide more than 1,000 jobs in the local area. This marks another strong fulcrum for the internationalization of Mengniu, showing that we are moving faster and further to internationalization.

Quality Upgrading

In the internationalization journey of Mengniu, we fully learn from foreign advanced technology and advanced experience, combine the characteristics of China to give full play to our strengths and outstanding features, and provide world-class Chinese dairy products to consumers around the world with rich product lines and strict production standards.

Case

Mengniu took the lead to introduce the international quality assurance of ranches into China

Mengniu fully complements and integrates resources with the world's leading companies around quality and safety across the industry chain. In the construction of milk source, Mengniu promotes the Arla Garden farm management system based on strategic cooperation with New Zealand AsureQuality (AQ), SGS and other international institutions.

Mengniu is the first dairy company to introduce AQ, an internationally renowned food quality and safety certification body, to establish an international standard of food safety for ranches. Through the promotion and application of the standard in Mengniu's strategic partners, Mengniu is the first in the country to cover the whole dairy industry chain including upstream ranches with international advanced food quality and safety certification. It has further enhanced the control of raw milk safety of strategic milk source partners, effectively promoted the full integration of China's dairy industry and international standards, and eventually developed the industry norm for China's food safety certification of ranches.

In addition, we have established cooperative relationships with more than 30 academic units and scientific research institutions around the world. Under the impetus of COFCO, we are responsible for implementation on Chinese side in the national cooperation project China-Denmark Dairy Technical Cooperation Center led by the Ministries of Agriculture of China and Denmark. Mengniu has established three overseas R&D centers in the United States, Denmark, and France, and jointly conducted nutrition innovation research with UC Davis, a world-renowned university, in order to provide more suitable and more nutritional products for Chinese and global consumers.

Led by Innovation

Mengniu insists on being consumer-oriented, adapting to the trend of consumption upgrading, and constantly innovating product categories and structures. At the same time, the Company innovates on service, provides consumers with intimate and meticulous services, and improves product accessibility.

✔ Nutrition Innovation

Since the inception, Mengniu has grown with "innovation" as endogenous impetus and regarded innovation as its core competitiveness. Mengniu's innovative spirit is especially reflected in the continuous pursuit of good products that meet market demands. In 2018, Mengniu's innovative products cover organic, high-nutrition, low-fat, weight-management and other aspects, taking human beings to a new level of nutrition and health.



Organic products

Organic milk follows the laws of nature, and aligns with the concept of using natural methods to foster organic and natural products. Mengniu is committed to providing natural and organic quality of life with the highest standards in the industry, diversified organic products, better organic farms, better organic ecosystem, better organic ranches, and refined dairy cow management.

Milk Deluxe Organic Milk



In May 2018, Milk Deluxe won the only "gold award" at Biofach for the seventh consecutive year.

Organic milk source: Organic planting of materials such as forage grass

-- Organic certifications of China and the EU, organic certification of the entire industry chain

-- Natural milk protein **3.6 mg**, **20.3%** higher than national standards

Student Milk--Organic Pure Milk

Organic certification: obtained the China Organic Product Certification issued by GRIT, an authoritative certification body for organic products, and became the first organic milk product in the student milk field

Organic environment: Compliance with natural organic principle across the chain from planting, breeding to processing

Organic quality: **3.6g** of high-quality protein and **110mg** of primary calcium per **100ml** of organic milk



Low-fat Products

We are committed to the development and promotion of low-fat products to meet the health needs of consumers. At present, Mengniu has a number of low-fat health products, which are deeply loved by consumers.



Shiny Meadow 0 fat fresh milk

- Per 100ml contain: 0g fat, 3.6g protein
- 120ml original high calcium
- No preservative added



Skimmed Pure Milk

- 0 fat, 0 burden
- Centrifugal technology removing fat, no additives

Low-sugar Products

We focus on improving human health and nutrition, maintaining the natural low-sugar and healthy properties of dairy products during product development, minimizing the use of added sugar, and developing and promoting zero-lactose products in a targeted manner.

Yoyi C LC-37

- 50 billion active bacteria C in every 100ml of the product
- Exclusive 37°C highly active bacterial strain
- Low sugar taste, contains 55 kinds of fruit and vegetable enzymes
- Leading industry innovation, catering to the market trend



Future Star Children's Organic Milk

- Selected Milk Deluxe organic milk source
- No added sugar, no harm to teeth
- Addition of concentrated apple juice to supplement vitamins

Nutrition-enhancing Products

Dairy products are one of the important nutrient sources of human health. We believe that the research and development of dairy products can effectively help the body obtain a variety of high-quality nutrients. In 2018, the Group's innovative products for nutritional enhancement included Champion BB-12 Yogurt, Shiny Meadow, high-calcium milk.

Future Star A2β Casein Pure Milk



- Dairy cow genetic screening for A2 cows
- Patented dairy cow screening technology, rare milk source
- **5.7** grams of protein per pack, A2β-casein more than **9.0**mg/ml

Premade Cup BB-12 Original Flavor

- Immunity enhancement and intestinal bacteria regulation
- Suitable for people with low immunity and intestinal dysfunction
- **1** billion Danish BB-12 probiotics per **100g** product



Burnlooking Fiber-Rich Milkshake Milk

"Burnlooking" means "slow burning", that is, "achieving confidence and a fit shape while enjoying a healthy life." This product is a new crossover innovation of Mengniu in weight management.

On March 26, 2018, "Burnlooking" won the "Innovation Award for the First Weight Management Milk" at the 12th Inner Mongolia Intentional Dairy Expo.



Infant Milk Powder

Mengniu Yashili specializes in breast milk research and has developed infant formula suitable for Chinese baby's physique, hoping to provide a sub-optimal solution for mothers who cannot breastfeed.



In 2018, Yashili actively participated in the "13th Five-Year Plan" project on the formulation of breast milk nutrition formula, and conducted research of breast milk components in 8 cities across the country to provide key data support for formula products.

In addition, we always retain the natural nutrition and flavor of milk as an important consideration in the product development and production process, and minimize all kinds of artificial additives such as aspartame. We use pasteurization and cold chain for most products to keep the product natural, pure and healthy. All dairy products contain no preservatives. At the same time, in accordance with national standards, as dairy products are low-sodium products, Mengniu does not add additional sodium to sodium-containing products and continuously monitors the production process to keep the sodium content within the required range.

✓ Product Availability

Adhering to the vision of safeguarding human health, we adopt reasonable product prices to maintain gross balance and price stability of dairy production to balance the rights of upstream ranchers and downstream consumers. At the same time, we broaden our marketing channels and innovate on our distribution models to improve product accessibility and deliver fresh quality milk to every consumer.

Case

“Fresh Everyday” brings consumers a new experience of milk delivery

“Fresh Everyday” is a new retail model of online milk ordering + offline milk collection from intelligent freezers based on technological cooperation between Mengniu and Alibaba’s Taobao and Tmall. The project solved the problem of preservation for the “last mile” through the 2-6 °C cold chain logistics throughout the process. Intelligent freezers are installed directly to the building lobbies of consumer communities, ensuring cold preservation of products during the whole process and bringing a new experience of milk delivery to consumers.



✓ High-quality Service

In order to get closer to consumers, Mengniu launched a number of consumer symposiums, social media monitoring, in-depth interviews, and consumer workshops in 2018 to understand consumer needs timely, comprehensively and rapidly and to inspire innovation on products and services.

According to our business strategy and plan, Mengniu conducts a “customer voice” survey on a quarterly basis around the service system of “center serving regions, regions serving clients, and clients serving end customers”, aiming to comprehensively evaluate service quality, continuously empower clients, and effectively improve customer satisfaction. In 2018, our customer satisfaction reached over 90%.

Case

Focusing on artificial intelligence to meet consumer needs

From November 1st to 3rd, 2018, China Retail Trade Fair (CHINASHOP) was held in Kunming. As one of the top 100 retailers in China, Mengniu comprehensively displayed Mengniu brand and products around “new retail and new trends”. When visitors stepped into the Mengniu exhibition area, Mengniu conducted a big data analysis through the face recognition system and the facial information processing system to identify a series of information about personal characteristics such as gender and age, and recommended a suitable Mengniu product accordingly.

The Company resolutely safeguards the legitimate rights and interests of consumers, such as security rights, right to know, and right to choose. It strictly abides by the requirements of the *Advertising Law of the PRC*, and identifies, evaluates, rectifies, and reports marketing-related risks in accordance with the Company’s internal control procedures to ensure authenticity and compliance of advertising content and promotional activities. At the same time, all business divisions explain all product names, functions, sales channels, etc. to all marketing personnel, and offer responsible marketing training for sales personnel based on “techniques of speech for shopping guides” to avoid misleading consumers and to help consumers choose the most suitable products they need the most.

Case

Responsible marketing for infant formula

As an infant formula manufacturer, we conduct large-scale, scientific breast milk research. At the same time, we believe in the irreplaceability of breast milk. Therefore, in advertising, we follow the relevant national laws and regulations by scientifically promoting infant formula, hoping to provide sub-optimal solutions for mothers who cannot breastfeed.

The Company strictly abides by the *Advertising Law of the PRC* and the *Administrative Measures for Breastmilk Substitutes* of the Ministry of Health. It does not advertise for the first-stage milk powder, and strictly prohibits the use of any text or image including such wordings as “alternative breast milk” or “for infants under one year old”. Before advertising, the content must be internally examined and approved, and then sent to authorities for industry and commerce for review.

✓ Consumer Guidance

The Company pays attention to health education and guidance for consumers. With an insight into the needs of consumers, we design packaging according to different customer needs and guide consumers to purchase different portion sizes of products according to their needs in order to reduce food waste. Among them, “Future Star” Children Grow milk beverage and “SHOW” yogurt adopt small portion sizes that are more portable.

We have opened up online and offline multi-channels to continuously promote a healthy lifestyle to the public. In 2018, Mengniu “Champion” teamed up with Denmark Chr-Hansen with 100-year devotion in probiotics research and the Chinese Nutrition Society focusing on public nutrition and health, to promote knowledge on dietary health and probiotics and a healthy lifestyle based on Weibo, WeChat, and other platforms.

To Share The
Fruits Of
Development

OUR COMMITMENTS: TO SHARE THE FRUITS OF DEVELOPMENT

Mengniu helps employees grow through digitalization, deepens cooperation through the industry chain, promotes innovations-based development, and achieves a win-win partnership with all stakeholders.



Mengniu's Commitments



To provide fair and decent jobs to help employees grow



To improve the efficient use of resources and energy through innovations and create a digital ecosystem



To create a digitalized responsible supply chain and promote win-win cooperation through the whole industry chain



Mengniu's Action in 2018

Mengniu provides all employees with an equal and smooth growth platform and adopts democratic management to ensure that employees are well cared for, and their rights are guaranteed.

Mengniu is going to build an all-round digital management system for deep integration of the whole industry chain and information technology from pasture to milk cup.

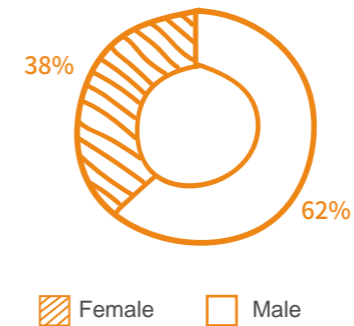
Mengniu is committed to establishing a full life-cycle management system to advocate CSR to both the upstream and downstream industry chains, and promote development of the whole industry chain.

Employee Empowerment

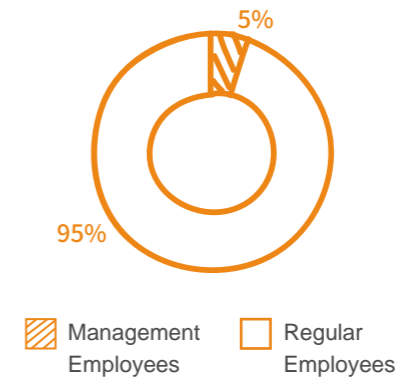
Based on the "People First" philosophy, we establish and improve employee rights protection system, build staff training system, and care for all our employees.



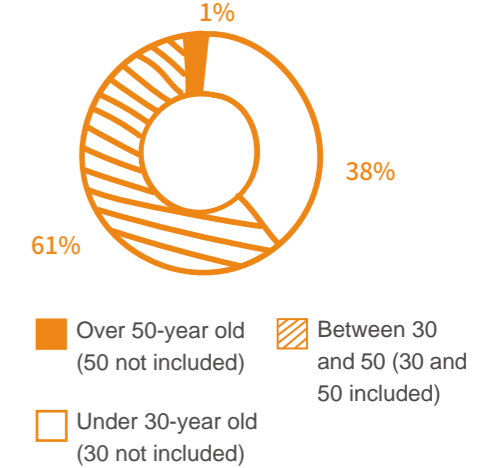
Employee Percentage by Gender



Employee Percentage by Position



Employee Percentage by Age



✓ Employees' Rights and Benefits

The Company strictly abides by the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and other relevant laws and regulations. Our headquarters and subsidiaries have developed and implemented internal employment rules, such as *Recruitment Management Guideline*, *Incentive Management Guideline*, and *Re-employment Rules of Resigned Employees*, and will sign labor contracts in accordance with the law. Following all internationally recognized human rights policies set forth in the *United Nations Universal Declaration of Human Rights*, the *International conventions on Human Rights*, and in the core conventions of International Labor Organization, the Company adheres to the principle of equal employment, and will not prejudice anyone based on their gender, geography, ethnicity, religion, age, political stance, etc. We avoid child labor or forced labor, and will respect and protect the legitimate rights and interests of all employees.

We support local economic development and localized operation to provide viable employment opportunities for local residents. Our local employment rate is over **90%**. By the end of 2018, Mengniu had reached a total staff number of **41,031**.



✓ Democratic Management

We respect employees' needs. We build a communication platform to ensure that employees have freedom of speech to communicate with the company and build harmonious workplace relationship.

Mengniu Group Workers Union has been strictly following the *Union Work Procedures*, and conducting Workers Congress every year. It has convened 6 terms of the congress, with 18 meetings in total. More than **5,100** employee representatives have been elected through the meetings. The employee representatives listen to and review the Group's work report, and monitor all policies involving the vital interests of employees, labor protection measures, employee welfare programs, working time and vacation. All the decisions will be effective after all delegates vote.

On the basis of the Workers Congresses, Mengniu established employee representatives inspection system and a labor dispute coordinating committee.

Employee Representatives Inspection System:

To establish *Mengniu Group Employee Representatives Inspections Management Plan*; to hold seminars, visit the workshops, staff canteens and dormitories to ask questions on the spot to identify existing issues regarding employees' work, life and thought; to promptly convey the company's major policies to employees at the same time.

Labor Dispute Coordination Committee:

To develop *Mengniu Group's Labor Dispute Mediation Measures*; to delegate mediation rights to grassroots mediation groups for first-time or minor complaints; to submit to the Group's Labor Dispute Mediation Committee any complaints unsettled at the grassroots groups or any difficult and complicated incidents involving multiple persons' petition or strikes, so that a hierarchic responsibility system can be established to resolve labor disputes in time, and to build harmonious labor relations.



The Secondary Plenary Session of the Sixth Workers Congress and Members Meeting of Mengniu Group



✓ Safety Culture

We are fully committed to building long-term mechanism of production safety. We always put standardized safe production, safety culture, IT-based safety measures as an important starting point to facilitate safe production. We have a clear safety management structure, composed of the Group, the business division, and the plants. We have established production safety risk classification control and prevention mechanisms, and it is always in our core belief that safety risk control must be done prior to the happening of any potential hazards, so that the hazards won't brew into accidents. We strictly implement the "Ten Red Lines of Mengniu Dairy on Safety and Environmental Protection", carry out five levels of safety monitoring throughout our production processes. We also adopt the online and offline approaches to enhance safety awareness and improve safety skills of our employees.

In 2018, the Company organized 9 safety trainings with a total of 14,000 person-times.

organized
 9 safety
 training programs
 a total of
 14,000 people-times



Emergency Management Training



Certified Safety Engineers Training



Systematic Tools Training



Dual Preventive Mechanisms Training

The Company fully implements the *Occupational Disease Prevention Law of the People's Republic of China*. As required by the *COFCO Occupational Health Infrastructure Pilot Program*, Mengniu Group developed our *Occupational Health Management System*. By consolidating the occupational health infrastructure, standardizing occupational health management behaviors, and improving the level of occupational health management, the company has formulated the "Occupational Health Assessment Standards" inspection rules in light of the actual operational status, and comprehensively carried out occupational health supervision.

The Company strictly enforces pre-job occupational hazards informing. Each year we carry out physical examination of employees prior to the employment, during the service and after resignation. It conducts three-level security training before hiring employees, who will then take exams to obtain a security training certificate. Those who fail the exams are not employed. Mengniu has made an annual training program for our employees on occupational health education. The trainers and managerial staff are required to attend professional training sponsored by third-party organizations to obtain the relevant certificates.

We provide our employees who are exposed to occupational hazards in the work environment with individual protective equipment that meets the national and industry standards, and we conduct physical examinations of those employees on a regular basis. For work areas exposed to occupational hazards, Mengniu separates hazardous work from non-hazardous work, and installs ammonia alarm devices where toxic hazards may occur.

In 2018, there was 0 case of work-related death in Mengniu.

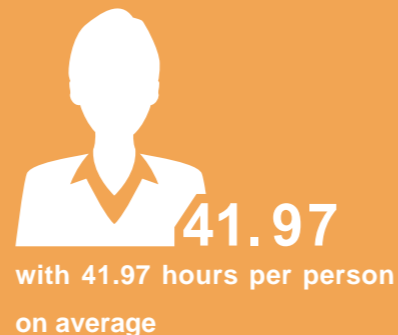


✓ Growth and Development

We focus on employees' career development, and have developed *Training Manual* to ensure good training management. In 2018, the company released the "Five Elements Leadership" model, and further established a unified evaluation system for leadership development, cadre ability evaluation and talent selection throughout the Group, which was actively promoted by various business divisions. We go all around to optimize our talent fostering system. We provide training on company orientation, comprehensive skills, professional skills and leadership so that each employee could receive systematic and more targeted training and education. In 2018, **100%** of Mengniu employees received training with **41.97** hours per person on average.

In 2018, the Company continuously optimized the existing incentive system, implemented hierarchical authorization, strengthened the relationship between individual incentives and organizational performance, and promoted the change from labor cost control to driving labor efficiency. Under the current long-term incentive plan, according to the stock award scheme and the share option scheme the company granted **6,693,084** shares and **9,593,689** options to the employees participating in the plan during the year.

Trainees by gender



Case

The "WorthIt" Online Training Platforms

Mengniu keeps improving its diversified training platforms, and builds an online training system called 'WorthIt'.

Highlights--EU-China MINI learning project

It was the result of a strategic cooperation between Mengniu and China Europe International Business School (CEIBS). The project has a quality online management courseware--**18** courses in seven modules--entailing strategic management, organizational skills, decision-making execution, marketing, financial management, team management and leadership. It is a wonderful portal to skills training for all grassroots managers, with **100%** student satisfaction.

The WorthIt Platform is used to train new employees

Totally, **33** new online courses were added into the platform, including corporate culture, the history of enterprise development, production safety, food safety, production and sales of milk. It is an online learning map, which is pushed electronically to each and every new employee.

Learned on the platform

There are **2,155** courses online, and **69.59%** of staff learned on the platform, each completing **43.79** courses, with **25.42** credits and **25.61** hours per capita.

Case

Quantum plan-- matching rights and duties, empowerment to employees and employee sharing benefits with company

In 2018, the Room Temperature Business Division selected **9** units as large quanta to pilot the quantum plan from all its subsidiaries and branches. A total of **1791** small quanta came into birth from these **9** large ones. Followed by a clear business accounting method, improved authorization system, process management and correction mechanism, and hierarchical proportional incentive system, these **1791** small quanta have become mature and viable. The division strives to tap the potential of the smallest quantum through motivation, empowerment, guidance, authorization and assessment to ensure its healthy operation and development systematically, talent-wise and culturally.

As of October 2018, these **9** pilot quanta's sales volumes exceeded the budget target by **9.4%**, and the quantum target by **1.5%**. Their profit was **48.184** million Yuan more than the budget target, and **23.176** million Yuan more than the quantum target.



Employee Care

We strive to take a good care of our employees, meet their needs and become their strong support

We created cozy offices and comfortable factories.

We built gyms, staff rooms, badminton rooms, basketball courts, workshop lounges, leisure bars, and staff libraries.

Caring for female employees

We conducted lectures on health, family, new career women; we invited our female employees to attend female etiquette training; we set up mummy huts for those in need.

Holiday care

We offer different levels of caring packages for key personnel and managers, front-line staff, poor employees, female employees, employees on alpine, extremely hot and outdoors areas, employees suffering severe diseases, poor residents and poor students around our business premises. We distribute those packages at different time of the year. All year round, we provide subsidies to our employees in hot summer and cold winter. We also subsidize our employees who are poor and cannot afford their kids' schooling.



Football Leagues



Football Leagues



Third Summer Carnivals of Mengniu



Third Summer Carnivals of Mengniu



Mengniu 2018 National Basketball & Women's Volleyball Tournament



2018 Annual Staff Meeting



Mengniu 2018 National Basketball & Women's Volleyball Tournament



2018 Annual Staff Meeting

Case

Mengniu Employee Care Fund

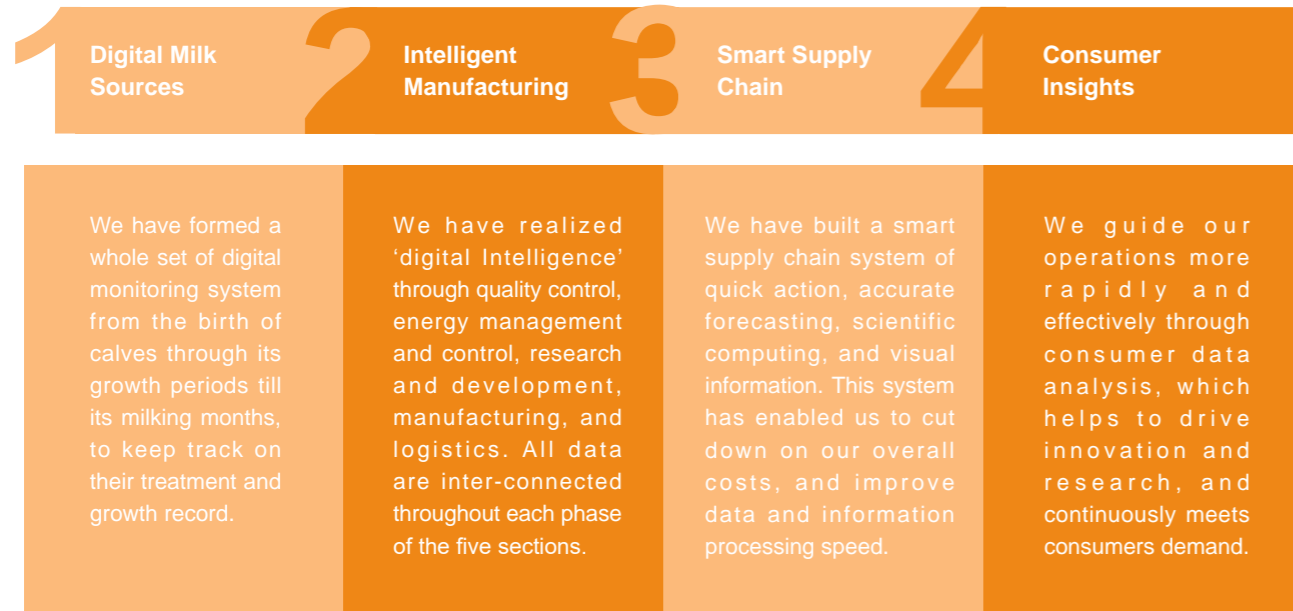
Employee Care Fund: This fund helps employees who have practical difficulties in their families, suffer serious diseases, or whose spouses and/or children are in need of help. Mengniu takes a good care of its employees and attaches great importance to employee satisfaction index. In 2018, a total of **15** people were funded and the support fund was **590,000** Yuan.

Employee Care Mutual Support Fund: Employees voluntarily join the fund and pay an annual membership fee of **60** Yuan. They get cash support when severe diseases or other disasters attack themselves, their spouses, or their children. In 2018, a total of **11,786** people paid **707,160** Yuan into the fund, and **51** people got **488,889.85** Yuan of cash support.

The Company organized a variety of cultural and sports activities to enrich the cultural life of employees, help them build a healthy life and work style, enhance their sense of belonging and happiness.

Technological Empowerment

We warmly embrace digitalization and intelligentization. We utilize information technology such as big data to link our upstream and downstream industries, with the dairy industry being the centre. We are committed to facilitating deep convergence of industrial chains and information technologies from our pasture to milk cups to realize the intelligent transformation of our traditional dairy industry.



✓ Digital Milk Sources

In the process of Mengniu's digital transformation, dairy farms became the first stop.

The breeding management, health management, milking management, feeding management, quality control and veterinary drugs management on our dairy farms are all connected through internet; all data and information are shared among the farms and the company. The data are automatically collected on the farms. The smart system posts alerts in time of new job assignments or new risks, and the milk yield is also forecasted. This smart system helps improve the daily operation and management of the farms, cultivates into the potential of lowest per-kg-milk cost, and reduces the company's raw milk procurement costs. Ultimately, it helps achieve smart deployment of milk production and milk quality control according to demands.



✓ Intelligent Manufacturing

Following the national strategy of intelligent manufacturing "Made in China 2025", Mengniu was designated in 2018 as the key intelligent manufacturing pilot by China Ministry of Industry and Information Technology and as the key company supported by the dairy intelligent manufacturing program. Mengniu built Gaoke and Jinhua plants, which meet the requirements of the dairy industry intelligent manufacturing and the new digital model. The project completed construction of five major modules required in the Manufacturing Execution Systems (MES)--production management, quality management, equipment management, cost management, data collection--and successfully built an interconnection mechanism between its Resource Planning (ERP), Laboratory Information Management System (LIMS) and Intelligent Warehouse Management System (WMS). The system helps Mengniu Group increase its production efficiency by **20%**, reduce operating costs by **20%**, reduce product defect rate by **20%**, increase energy efficiency by **10%**, and shorten product development cycles by **30%**. One-click product traceability shortened from **120** minutes to **30** minutes. While constructing intelligent dairy plants, Mengniu led the establishment of "Smart Manufacturing Complex", and created **3** sets of software copyrights¹ and **3** Intelligent Manufacturing drafts standards² through constant discussions and polishing.



✓ Smart Supply Chain

Mengniu created an intelligent information system in a holistic manner in order to achieve more accurate forecasting, more efficient scheduling, and more thorough planning.

- **More accurate forecasting:** The system integrates internal and external data to achieve more accurate data modeling so that offline-based manual forecasting could transform into "big data forecasting" that is based on actual sales.
- **More efficient scheduling:** On the basis of precise forecasting, Mengniu can establish smart 'order response mechanism' and smart 'production scheduling system'. The algorithm model helps improve the efficiency of manual scheduling and thus reduce operating costs.
- **A more comprehensive plan:** Based on the big data modeling system, Mengniu plans to take a holistic account of the marketing resources layout, factory production resources layout, and the distribution resources layout, so that an optimized logistics network and improved supply chain could be established.

Mengniu's Smart Supply Chain plays important roles from the strategic decision to tactical execution, both complementing each other. Strategically, it needs to consider optimized layout and demand forecasting; tactically, it needs to have precise production planning and intelligent ordering. After the supply chain becomes digitalized, with Alibaba Cloud, Mengniu can take into account all factors and variables and obtain the final plans within minutes. Its raw milk dispatch cost drops by **9%** on average every month.

1:Software copyrights: *Equipment Management System in Intelligent Milk Processing Plants, Quality Management System in Intelligent Milk Processing Plants*

2:Draft standards: *Technical Requirements for Intelligent Energy Management and Control System, Workshop Management Requirements in Intelligent Milk Processing Plants, Technical Requirements for IT-based Quality Monitoring and Control in Dairy Products Plants*

✓ Consumer Insights

June 2018 saw the collaboration between Mengniu and Alibaba Cloud. Mengniu officially launched the Mengniu Consumer Big Data Project. Mengniu set up data standards, meta-analysis, and insight framework to integrate data interfaces, collection methods, data assets, data models, analysis methodologies, and operation models. Finally, a people-centered Mengniu Consumer Insights System was established.

The Mengniu Consumer insight system collects consumer data, such as customers information and behavior patterns to open up multi-channel data to form Mengniu consumer labeling schemes, which help achieve accurate delivery of digital marketing, promote R & D-driven innovations, and constantly meet consumers demand. With the support of product portraits, the system interacts with consumers, which plays a big role in product designing.



Responsible Supply Chain

We cooperate with all partners throughout the dairy industry chain, and adopt a new, innovated, flexible and efficient supply chain management model, to create a win-win environment and help revitalize China's dairy industry.

✓ Responsible Procurement

We strive for co-development of partners on the supply chain, and promote corporate social responsibility through the upstream and downstream partners throughout the chain. Mengniu developed Supplier Management System, and signed the *Anti-Commercial-Bribery Contract* with all suppliers. We respect the principles of openness, justice and fairness throughout our procurement procedures. We conduct strict qualification examination of all suppliers to select those that meet the quality and environmental standards.



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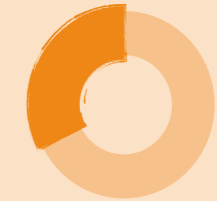
suppliers

including

6 overseas suppliers



Economic and procurement contract compliance rate **100%**



36% of the plants applied for and have obtained the accreditation of FSSC22000

Mengniu established Supplier Relationship Management (SRM) platforms to deliver and audit information from supplier selection to vendor recruitment, contract execution, and invoicing. Those failing the audits will be put in a "blacklist". We collaborate with our suppliers to implement a VMI (Vendor Managed Inventory) and JIT (Just In Time) based procurement of packing materials. Mengniu conducts annual training for suppliers. In 2018, we conducted five different sessions of such training, and the proportion of suppliers participating in training is **100%**, receiving a total number of **5120** hours of training.

Case

Mengniu Shared Storage Project

To comprehensively improve material flow and reduce fund investment, Mengniu introduced JIT management and adopted shared warehouses, upgraded inspection and improved ordering to extend supplier warehouse storage to their plants so that the actual inventory could decrease, and the Capital Employed Ratio could also drop. By the end of March, Mengniu's capital employed fell by **56.77** million yuan, a decrease by **90%** as compared with that before the implementation of the shared storage project. The physical inventory decreased by **30%**. In total, **31480** cargo storage spaces were transferred. It signed **157** contracts to lease shared storage, and its forklift drivers decreased by **60** persons.

"Hui Cai" Online Procurement Platform

Mengniu worked with JD.com to set up a "Hui Cai" online procurement platform. Mengniu's Room Temperature Business Division will buy raw materials that are needed in production lines and offices mainly from this platform, thus taking full advantage of the abundant product resources in online stores, rapid delivery system, and unified procurement procedures. Mengniu procurement has since been more standard, efficient and transparent. In addition to the 29 plants and 16 functional departments under the Room Temperature Business Division, "Hui Cai" platform has benefited a wide range of Mengniu businesses, such as the plant-based protein beverage ZhiPuMoFang business, the Xinjiang Plant, the Youzhiyou Plant and the cheese business. The platform users account for **51%** of Mengniu employees. Since the adoption of the online procurement platform, the Room Temperature Business Division has optimized **56%** of its procurement projects and **31%** of its channels. And its delivery period has improved by **53%**, its new arrivals period by **76%**, its procurement execution standardization by **100%**.

✓ Shared Growth

Mengniu is committed to "building a world-class dairy enterprise", and is keen on working with the industry chain to grow together. We organized corporate social responsibility activities, such as "Golden Key of Milk Cow" and "University of Ranchers", through which we promote our project management system and help ranches increase profits. We conducted financial aids activities to help ranches who ran short of funds; we empower our distributors by utilizing our smart network system.

Ranch Tech Support

- **University of Ranchers:** We provide systematic training, technical support, and financial aids to help ranchers and milk source technicians to enhance their awareness of using improved technologies and practices in cattle farming. The university ensures that technological achievements are utilized on the ranches, and their overall operation are improved. We signed *Ranchers Social Responsibility Code of Practice* with ranchers, provide systematic training, technical support, and financial aids to help reduce cost and improve efficiency in milk source production.
- **Golden Key of Milk Cow:** We established regular technological learning mechanism on ranches, and provided intensive training. We introduced lean thinking and lean tools into the front ranch management to improve their overall operation and management level. In 2018, we hired over **100** experts in the industry to help more than **600** ranches in China. Their average output per cow increased by **2kg**, and average cost per kg milk decreased by **0.2** Yuan. The ranches have achieved a profit increase of more than **800** million yuan.
- **"Love Cattle Farming":** We created an animal husbandry + Internet model to establish a one-stop smart "China Dairy Eco-sharing Platform", and, with the support of core enterprises, we provided financial services, technical services, industrial re-education services to all enterprises on the supply chain. By the end of 2018, **110** suppliers have registered with the platform, of which **92** have actual transactions. We have **543** raw milk suppliers, of which **454** conducted online transactions.

Financial Aids

- **Supply Chain Finance:** Mengniu collects business data in orders, production, logistics, delivery and payment throughout the industry chain, provides our clients with comprehensive online financial services that are based on data analysis, connects our system with that of external partners to optimize customer experience, interacts with third party partners, such as banks, raw material suppliers, downstream distributors, collateral companies, and logistics companies, and provides professional supply chain financing solutions to address distributors\suppliers financing difficulties, and to ensure win-win development among all stakeholders.

Mengniu diversified our partnership, and deepened profit connections with upstream and downstream partners in 2018. With supply chain financing, Mengniu established a strategic partnership with the Agricultural Bank of China, the Bank of China, and local banks. In 2018, Mengniu obtained **170** million Yuan loans from banks, achieving a capital coverage rate of **14%**. Its loan rate is **2%-4%** lower than the market's average. These loans have solved the ranches' "difficult and expensive financing" problems. Mengniu adopted "Bank + Enterprise" data linking, and created an innovative model using big data to authorize financing.

Empowering Distributors

● **Smart Network System:** to integrate all financial operations, and help distributors reduce cost of multiple systems in the original market. The system covers all industries, all channels, all business scenes, all departments and all staff of our distributors. The innovative business partnership model can improve distributors' personnel efficiency by **32%**, visits arrival rate by **12%**, save over 18 million Yuan in Mengniu's development cost, and help customers save system cost of **45.32** million Yuan per year. Its customer satisfaction rate reached **89.2%**.

● **Mengniu Decoder Project:** Mengniu decoder means the "Mengniu Business Decoder". It is a complete set of system to improve the profitability of distributors. On the basis of industry trends in the context of big data, with ROI (Return on Investment) at its core, the code project guides businesses on how to focus resources and improve profitability. The operation of the decoder carries out a comprehensive diagnosis of the customer's business situation, forms the Mengniu Decoder project case library, and provides customers with a practical, highly effective tool.



Mengniu Decoder Project

Leading the Industry

We are committed to becoming an innovation-driven nutrition and health food company. We will keep improving our technological innovation system, strengthening management of innovation bases, and promoting a rapid and effective transformation of innovations into new products, new services and new business models, to meet the needs of external customers. We also actively participate in national projects and take part in industry exchanges, leading the development of the global dairy industry.

✓ Technological Innovations

Mengniu strictly abides by relevant state laws and regulations, including the *Patent Law*, *Trademark Law*, and *Copyright Law*. We keep improving the *Intellectual Property Protection and Management*, *Patent Management System*, *Intellectual Property Management program Compilation and Product Innovation Management System*. Through the Group-level policies and procedures, Mengniu will conduct patent risk assessment and mitigation through project launching, development and marketing of new products, to avoid patent violations, while nurturing IP culture within the Group. Through training and effective incentives, Mengniu will improve our employees' respect for intellectual property, and constantly encourage the spirit of innovation.

Mengniu has built a technology platform for all our business divisions as the incubation base for new product R&D, and to provide technical support and guarantee for the commercialization of innovative products. At the same time, the Company strongly supports employees to study abroad and create an international scientific exchange platform. The low-temperature R&D department and the French Danone R&D team continue to carry out all-round and in-depth cooperation, from R&D system to product technology innovation, comprehensive benchmarking international first-class R&D level, and conduct global R&D and academic research with partners in R&D centers in the United States, France and Denmark.

In 2018, Mengniu undertook a number of national level projects, including *Risk Management Technology Demonstration Project for Target Substance in Milk and Milk processing*, a key R&D project under the 13th Five-Year National Development Period and *Key Technology Research and New Product Innovation for Precise Regulation of Intestinal Health in HeshengYuan Food Manufacturing*, a major project of the Beijing Municipal Science and Technology Commission. Mengniu also works with UC Davis in infant nutrition and health research, and the University of Stellenbosch, South Africa, in UV sterilization and milk quality control research.

✓ Industry Achievements

The Company actively participates in the compiling of national and industry standards, which lead and regulate the industry development. Mengniu is also actively participating in industry exchanges and sharing experience with international counterparts.

In 2018, Mengniu for the first time led the development of the industry standards for "*Condensed Milk*" and "*Determination of β -Casein in Milk and Milk Products*". Meanwhile, all Mengniu business divisions have independently made all kinds of standards: the Room Temperature Business Division led the revision of 5 national standards, partnered with others in the revision of 6 national standards, 4 industry standards, and 1 enterprise standard. The Chilled Temperature Business Division participated in the revision of national standards for fermented milk.

● **The Industrial Standard--Determination of β -Casein in Milk and Milk Products:** In order to respond positively to market changes and the lack of industry technical reserves, Mengniu Research and Innovation Division developed a research project on "Detection of A1 and A2 β -casein in milk and milk products (authorized by China and Australia Intellectual Property Administrations). The research has developed into a scientifically proved, effective system, which broke through foreign monopoly on the A2 milk source and filled the gap in domestic market.

Case

Mengniu plans to build the only "National Innovation Base of Technical Standards" in the dairy industry

August 14th, 2018 witnessed the launching meeting of the National Innovation Base of Technical Standards (for the dairy industry) in Beijing. Innovation Base is a "national project", recommended by the SASAC and COFCO, officially approved by the National Standards Committee, and co-sponsored by more than 70 research institutes, industry organizations, and enterprises. Currently, the dairy innovation base has hired 14 top experts in the industry (5 academicians, 1 specialist from the Counselors' Office of the State Council) to build "a world-class dairy industry standard Innovation Center."

As the only undertaker of the National Innovation Base of Technical Standards, Mengniu will use this platform to gather strength and strive to reduce costs, optimize structure, improve quality, create brand and increase vitality through standard innovation. World-class standards promote world-class quality, drive the industry to become bigger and stronger, and revitalize the Chinese dairy industry.



The year 2018 witnessed Mengniu's participation in China International Big Data Fair, China Retail Conference & Expo, the Ninth China Dairy Conference and Exhibition, and the 2018 China Dairy Exhibition. We showcased our leading experience in branding, products, digital construction, etc., and promoted the communication in and the development of the dairy industry.

Case

Top 20 Chinese Dairy Company Summit

On September 27th, 2018, Top 20 Chinese Dairy Company (D20) Summit of 2018 was convened in Hulunbuir, Inner Mongolia. As the organizer of the conference, Mengniu Group and other 19 enterprises jointly issued "China D20 Hulunbuir Manifesto", a solemn commitment to the whole society that Mengniu and the other members of the D20 will vigorously revitalize breeding, processing, milk formula, benefit and consumption, to realize the revitalization of the dairy industry in China.



To Build a Sustainable Planet

OUR COMMITMENTS: TO BUILD A SUSTAINABLE PLANET

Mengniu believes that every step we take has the power to change the world. We always pass on the green concept of "originating from nature, sharing nature and giving back to nature" to each node in the upstream and downstream of the industrial chain, and embed the concept of green, ecological, environmentally friendly and sustainable development in all aspects of production and operation, making unremitting efforts to jointly safeguard our homeland in every action, exploration and practice.

Mengniu's Commitments



Using cleaner energy, developing a circular economy, and increasing investment in energy infrastructure and clean energy technologies



Implementing green manufacturing, practicing green development, and continuously reducing greenhouse gas emissions

Mengniu's Action in 2018

Adhering to the concept of green and low-carbon sustainable development, Mengniu actively implemented its energy management system in the production and operation process, continued to expand the proportion of clean energy use, and strengthened water resources management.

Mengniu actively developed green factories and practiced green and low-carbon operations. It hired third-party companies on its own initiative to carry out greenhouse gas stock-taking, and adjusted its energy mix by reducing fossil energy use.

environmental protection

Pollutant indicator		Indicator unit	2018 data
Exhaust gas ¹	Total exhaust gas emissions	10,000 cubic meter meters	242,714.40
	SO ₂ emissions	ton	49.77
	NOx emissions	ton	243.30
	Soot emissions	ton	12.76
Waste water ²	Sewage discharge	10,000 tons	2,806.44
	COD emissions	ton	1,425.96
	NH ₃ -N emission	ton	191.60
CO ₂ emissions ³		10,000 tons	105.22
CO ₂ reduction ³		ton	1,447.86
Hazardous Waste generation ⁴		ton	189.20
Solid Waste generation ⁵		ton	14067.36
On-grid electricity consumption in all regions ⁶		10,000 kWh	97,606.28
Coal consumption ⁷		ton	29,579.58
Gasoline consumption ⁸		ton	149.37
Diesel consumption ⁸		ton	842.03
Natural gas consumption ⁹		10,000 standard cubic meters	6,463.28
Solar power generation ¹⁰		10,000 kWh	289.61
Biomass gas production ⁸		10,000 tons	26.91
Vapor consumption ⁷		ton	400,594.74
Comprehensive energy consumption ¹⁰		10,000 tons of standard coal	2599.59
Total water consumption ¹¹		10,000 tons	502,717.20
COD reduction ¹⁰		ton	47,095.70
Water savings ¹¹		10,000 tons	96.00
Water reuse rate ⁹		%	7.18
Packaging material usage	Tetra Pak aseptic packaging	in 100,000,000	185
	Carton (waste paper and wood pulp) ¹²	in 100,000,000	24
	Others ¹⁰	10,000 tons	118,515.78

Note:

1. Statistics of gas emissions and atmospheric pollutants cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division).
2. Statistics of wastewater and water pollutants cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division), Youzhiyou, Yashili and Junlebao.
3. Statistics of carbon dioxide emission cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division) and Yashili. Statistics of carbon dioxide emission reduction cover Inner Mongolia Mengniu (including room temperature business division, chilled business division, ice cream business division).
4. Statistics of hazardous waste generation cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division), Yashili and Junlebao.
5. Statistics of total general waste generation cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd., Yashili and Junlebao.
6. Statistics of on-grid power consumption cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room-temperature, low-temperature, and chilled products divisions, dairy products, fresh milk, Youzhiyou), Yashili and Junlebao.
7. Statistics of coal consumption cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division, fresh milk division), and Junlebao.
8. Statistics of gasoline consumption, diesel consumption and vapor consumption cover Yashili and Junlebao.
9. Statistics of natural gas consumption cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division, dairy products, fresh milk division), Yashili and Junlebao.
10. Statistics of solar power generation and biomass gas production, total water consumption, water saving cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division, dairy products, fresh milk division).
11. Statistics of COD reduction and reclaimed water recycling rate cover Inner Mongolia Mengniu Dairy (Group) Co. Ltd. (including room temperature business division, chilled business division, ice cream business division).
12. Usage of other packaging materials refers to the total amount of packaging materials used by Yashili and Junlebao.

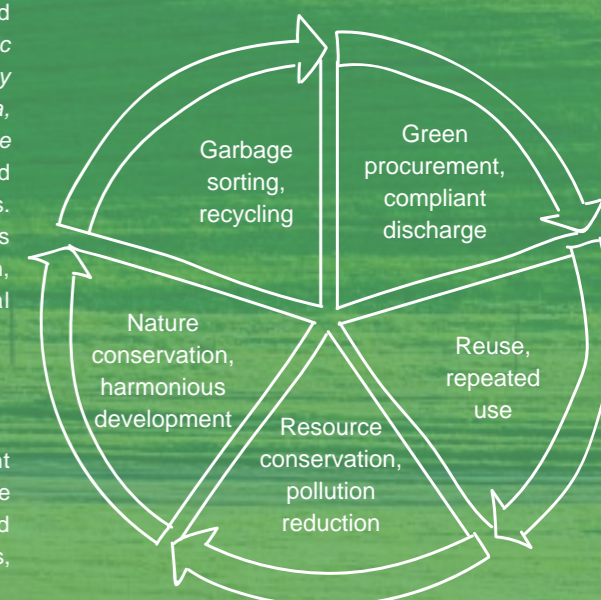
Ecological Ranch

We place emphasis on environmental protection and eco-friendliness. We have established a comprehensive green farm management system and structure starting from milk source. On the basis of the *People's Republic of China Food Safety Law*, *People's Republic of China Animal Husbandry Law*, the *Environmental Protection Law of the People's Republic of China*, and *Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock & Poultry*, Mengniu formulated and issued regulations and performance indicators of managing solid, liquid and gaseous industrial wastes. At the same time, Mengniu actively promotes ranchers to implement various projects for energy conservation, emission reduction and ecological protection, while exploring the model of balancing ranch operation and ecological environment.

✓ Ranch management

With Milk Source Division as general planner and Operation Management Center as implementer, Mengniu has completed the establishment of the environmental management system, systems formulation, implementation, and tracking, which gradually permeates all cooperative ranches through meetings, training and publicity.

Ranch Environment Management System





On the basis of establishing a green ranch environment management system, Mengniu sets targets for the assessment of carbon emissions in the upstream of the supply chain, while requiring long-term cooperative large and medium-sized ranches to set up professional management departments or hire professional management personnel to implement comprehensive and professional assessment of environmental protection facilities and track items that do not meet environmental requirements until the rectification is completed.

In order to improve the green operation competence and environmental awareness of ranchers, Mengniu hires professionals of third-party environmental assessment companies to conduct nationwide video training in terms of laws and regulations, environmental protection acceptance, environmental assessment, ranch manure treatment, and compliant discharge. Working with environmental engineering companies and industry experts, we have developed environmentally-friendly treatment plans for and offered training to ranches in different sizes in different regions. In 2018, we offered 4 green ranch related training sessions, totaling 16 hours of 2000 person-times.

At the same time, Mengniu vigorously supports the improvement of environmental protection facilities and equipment of ranches to deliver the concept of green farming. Through the joint efforts of all parties, in 2018 no accidents, no fines and no disciplinary actions occurred with ranchers in the aspect of environmental protection throughout the year.

✓ Practice in energy conservation and emission reduction

Mengniu actively promotes ranchers to carry out energy conservation and emission reduction projects. While mobilizing ranchers to fulfill the responsibility of sustainable development, it carries out research and supervision of holding farms and cooperative farms in order to reduce the environmental and ecological impacts of dairy production from the source.

In 2018, Mengniu rolled out following green farm projects for energy conservation and emission reduction:

Solar energy project	Low-temperature cleaning fluid project	Boiler and kitchenware renovation project	Energy-saving lamps promotion project
Use of solar water heaters to heat cleaning water, solar street lights in plants, etc. was promoted.	We assisted the cleaning liquid manufacturer to develop and test a low-temperature cleaning liquid product, the application of which enabled cleaning without heating, thereby saved energy.	Ranches were encouraged to use clean energy, reduced a lot of carbon emissions.	A cowshed has a large area with many lighting fixtures, so the promotion of energy-saving lamps saved a lot of electric energy.

In 2018, Mengniu carried out ranch wastewater discharge and water recycling project, forage grass planting management project, land use project, etc. to promote the green farm concept and its effect on environmental protection.



Ranches were encouraged and supported to build an anti-seepage storage pool that meets the desired scale to avoid wastewater infiltrating the groundwater.



Wastewater was treated by three-stage sedimentation. Supernatant was used to wash cowshed, milking hall, manure channel, etc., thereby realizing infinite recycling. Supernatant with higher concentration of organic matters was aerated and oxidatively degraded, and used for agricultural irrigation after passing the test.



We actively cooperated with ranches to negotiate with the local government on land leasing, circulation, etc., so that ranch manure returns to fields under the management of ranches in a controlled manner.

✓ Resource Utilization

Mengniu actively promotes the environmental management of fecal pollution. Through the innovative “circular economy” of cow breeding, it has realized the “cow-biogas-grass” agro-ecological cycle, upgrading animal manure from “harmless treatment” to “resource utilization”, thereby forming an industrial model of “integrating forage grass planting, cow breeding and milk processing”, which increases enterprise efficiency, benefits farmers, and improves the environment.

Separated from urine, cow’s manure is processed into dry solids, which are sold to partners to produce organic fertilizers. For small ranches with small waste generation, a hardening and drying field is built, where the waste is fermented by natural composting before being sold to surrounding farmers for returning to fields, which has realized resourceful utilization of manure and saved the amount of chemical fertilizer used by farmers, estimated at 3 million tons annually. Cattle’s manure and urine on large and medium-sized ranches are processed into dry solids by using water separation techniques. The solids are then manufactured into organic fertilizer, compound fertilizer, animal bedding and aquaculture feed.

✓ Biodiversity and Ecological Conservation

In order to protect biodiversity, the location of our ranches are selected strictly in accordance with ecological planning. The land used by ranches is government-approved non-forestry land to prevent such problems as shrinking forest area, species reduction, and invasion of alien species. At the same time, projects such as building cowsheds on land for animal husbandry are built in strict accordance with national land planning to ensure that dairy farms are at least 2,000 meters away from residential areas and shy away from sewage discharge outlets of residential areas. In addition, we encourage all ranches to plant shrubs in order to protect the ecological environment, and at the same time build green belts to prevent dust and epidemics. All ranches are actively involved in assisting ecological restoration with such measures as returning cows’ urine and feces to fields to rehabilitate the saline-alkali land, so that crops can grow on the improved land from barrenness.



Mengniu Ecological Ranch

Take Bengbu Ranch as an example. The ranch annually produces 900,000 cubic meters of biogas fertilizer, and the biogas slurry is returned to 100 thousand mu of alfalfa planting area through the pipeline to realize the “cow-biogas-grass” agro-economic cycle.



Green Operations

Mengniu always adheres to the concept of green and low-carbon sustainable development, regarding the harmony between human and nature as its vision for development. We attach importance to environmental protection and resource conservation, integrating the concept of environmental protection into the production management. In the principle of "green design, green products, green production, and restoration of green nature", we focus on solving actual or potential environmental problems in the production and operation process.

Mengniu's efforts in environmental protection are based on the *Environmental Protection Law of the PRC* and guided by **22** categories and **163** national comprehensive and special laws and regulations and standards on environmental protection. We have formulated **8** environmental management systems including *Mengniu Manual on Environmental Protection*, *Procedures for Environmental*

Risk Assessment and Control Planning, *Administrative System for Environmental Accident Reporting and Handling*, and *Administrative System for Environmental Management of Construction Projects*.

Mengniu introduced the standard of *ISO14001 Environmental Management System* in 2002, which identifies and manages the factors that may affect the environment during the Company's research and development, production and sales. It adopts the *ISO 50001 Energy Management System* to strengthen the management of all links and promotes green production steadily. As of 2018, Mengniu had completed system upgrades according to new editions of standards; **100%** of Mengniu-owned factories had been certified by *ISO14001 Environmental Management System* and *OHSAS18000 Occupational Health and Safety Assessment System* and obtained certificates. In 2018, all of Mengniu-owned factories were certified by *ISO50001 Energy Management System* and obtained the certificate.



✓ Environmental Management

In order to better monitor the emission of environmental pollutants and ensure that various pollutants do not adversely affect the environment, Mengniu has clear and strict regulations for the detection of pollutants such as sewage, exhaust gas and noise in each plant: sewage shall be tested by a third party quarterly, **4** times a year; exhaust gas shall be tested by a third party every six months, **twice** a year; noise shall be tested once a year; and the test results shall be reported to the Group's Environmental Management Department for record. In 2018, Mengniu received **21** inspections at the provincial level and above, **74** inspections by local environmental protection authorities, and we passed all inspections with no discharge exceeding the standard.

In 2018, we revised *Mengniu System for Environmental Management of Hazardous Wastes* to clarify the responsibilities and handling procedures of all relevant management personnel, which further standardized the hazardous waste accounts and treatment procedures and strengthened the process management of hazardous waste collection, storage and disposal. In addition, in order to help factories sort out various processes, Mengniu compiled the *Standard Process for Compliant Disposal of Hazardous Waste*, which standardized the procedures and documentation for collection, storage and disposal of hazardous waste.

At the same time, in order to improve the quality of surrounding environment of factories, Mengniu implemented deodorization of the sewage treatment system to deal with the odor generated by anaerobic fermentation, and adopted advanced chemical treatment process to treat the odor from photocatalytic process and biological deodorization. After treatment, there was no obvious odor around the factories and the environmental quality met Grade 2 and above of the *Ambient Air Quality Standard*. In 2018, a total of 7 factories were deodorized and rebuilt. In 2019, 10 factories will complete the technical renovation of deodorization.

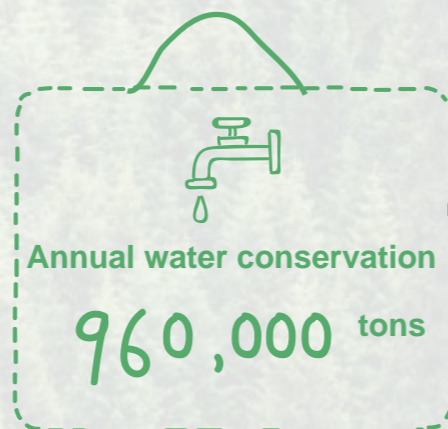
In 2018, Mengniu produced various types of hazardous waste, waste engine oil, etc. all of which were disposed of by plants with hazardous waste treatment qualifications, and invested **1,379,800** yuan in hazardous waste treatment.



蒙牛®

✓ Water Resource Management

Water resources in China are scarce, and the dairy industry consumes relatively large amounts of water. In order to alleviate this contradiction, Mengniu adopts three methods of "expanding sources of water, reducing consumption, and recycling" to achieve efficient water use. The Group set up a Committee on Energy Conservation and Emission Reduction, of which the director is served by the president of the Group, deputy director by the vice president of Group in charge of safety and quality of tasks for energy conservation and emission reduction, and members by heads of functional departments, business divisions and other relevant units. Eight water saving measures and 3U water-saving strategy are continuously implemented. Water saving target is set (such as the annual water consumption of per ton of products saved 0.8%) and *Letter of Responsibility* is signed annually. In 2018, through the recycling of reclaimed water within the enterprise and the supply of reclaimed water, we achieved water savings of **960,000 tons**, including **260,000 tons** reclaimed water within the Company and **700,000 tons** reclaimed water for other companies industrial production.



✓ Energy Conservation and Greenhouse Gas Reduction

Mengniu set up a special energy management department to build a "pyramid-style" three-tier management structure of "Group-Business Division-Factory" and formulated 11 energy conservation management systems in the spirit of "Honesty and Compliance, Green Operation, Quality and Efficiency Improvement, and Low-carbon Development" such as *the Energy Management System Manual, Energy Review Control Procedures, and Energy Benchmarks and Performance Parameter Control Procedures*. These systems set carbon emission and energy consumption targets for all links from design, procurement, installation acceptance and economic operation, (such as the annual energy consumption of per ton of products saved 1%) realizing full process control of energy management.

Mengniu actively adjusted its energy structures to integrate new and complementary energy sources. It increased the proportion of renewable energies, such as solar energy, biomass, wind, and bio-gas, reducing use of fossil fuels by over **22,000 tons** of standard coal equivalent. From 2015 to the end of 2017, Mengniu has saved energy to the amount of **30 thousand tons** of standard coal equivalent, reduced emission of approximately **58,000 tons** of carbon dioxide, which is equal to planting **40,000 acre** of trees. Meanwhile, Mengniu responded positively to electricity reform policies, introduced new energy-saving technologies—promulgated by the government—to improve energy efficiency. In 2018, Mengniu saved more than **4,000 tons** of standard coal equivalent after it had established the Ubiquitous Micro-network, extensively adopted clean energy sources, and implemented a series of energy-saving projects, including energy-optimizing workmanship, energy saving boilers, waste heat recovery, motor system energy efficiency improvement, and distributed photovoltaic power generation. In addition, Mengniu entrusted third-party companies to analyze and calculate greenhouse gas emissions generated through all the production phases of Mengniu's plants. In 2018, those companies completed such works with **5 pilot plants**.

Annual coal saving
4000+ tons of standard coal equivalent



Annual use of methane
2,140,000 m³



Annual generated electricity energy

1.17 million kWh



Case

Mengniu was awarded the "2018 Climate Leader Company"

The "Climate Leader Company" program is initiated by the Energy Foundation and implemented by China Council for an Energy Efficient Economy (CEECE). The program aims to select and recognize companies that have made outstanding contributions to climate change mitigation, energy conservation and emission reduction, and social responsibility, thus promoting the whole society to jointly explore the green development model and the construction of ecological civilization in China. In 2018, four enterprises including Mengniu were selected.

Mengniu actively implements an all-energy management system based on international standards, continuously expands the proportion of clean energy utilization based on multi-energy complementarity, and strengthens water resources management. From 2015 to 2017, Mengniu saved cumulatively more than **11,000 tons** of standard coal, reduced carbon dioxide emissions by nearly 30,000 tons, increased renewable energy proportion from **1.5% to 10.08%**, and decreased fresh water consumption per unit by **1.13%** per year on average, which was the most advanced level in China. Thus, Mengniu was awarded the "2018 Climate Leader Plant" as the only company in China's dairy industry to receive this honor.



Mengniu was awarded the "2018 Climate Leader Company"



✓ Green Factories

Mengniu and Danone collaborate on building green factories. With the vision for cooperation in “assuming corporate social responsibility, practicing green and low-carbon operations, achieving sustainable development, and developing a century-old green cause”, we focus on 14 tasks to achieve green and low-carbon operations.

- ✓ Four “national green factories” including existing Baotou factory;
- ✓ Three provincial water-saving enterprises and 7 municipal water-saving enterprises;

In 2018, Mengniu carried out technical cooperation with Danone on all fronts and introduced a number of energy-saving designs, including international advanced energy-saving boilers, steam condensate recovery, heat recovery, reuse of reclaimed water in sewage treatment plants (greening, flushing), and reuse of sewage treatment plant biogas (power generation, boiler), solar power (street light), zero discharge of primary water for cleaning system, etc.

Sustainable Industry Chain

Mengniu not only leads the industry in the construction of ecological ranches and green factories, but also advocates the concept of environmental protection in the downstream of the industry chain and the society, committed to building a green low-carbon industry chain from production to transportation.



✓ Green Packaging Material

By partnering with the world's leading aseptic packaging material manufacturers, Mengniu has taken the lead in using aseptically recyclable packaging materials certified by FSC or SFI forest system to ensure product quality while conserving resources.

The Group's packaging R&D in 2018 focused on the use of environmentally friendly packaging and the reduction of over-packaging. Three major projects were launched: replacing premade cup material PS with PP (polypropylene), cupped yogurt cover film structure optimization, and 340ml Yoyi C PET bottle weight reduction.



Case

Cupped yogurt cover film structure and material optimization project

Cupped yogurt is the largest category of major dairy companies. We have optimized the structure of the cover film to reduce the amount of packaging materials used and reduce carbon emissions and environmental pollution during processing. At the same time, this new structure of the cover film allows the use of a lower sealing temperature (from 230 to 200 degrees Celsius) in the sealing process of Mengniu's perfusion production, reducing energy consumption.

✓ Green Storage and Transportation

Over the years, Mengniu has insisted on scientifically planning the layout of warehousing through the strategy of "production and sales in the same place" to reduce energy consumption and environmental impact during product transportation. In the downstream transportation link, Mengniu has deepened strategic cooperation with China Railway to develop various modes of transportation such as high-speed rail and "mini" container, promoting the replacement of road transportation with rail. Full-range GPS technology is used to monitor vehicles on the road in order to achieve visualized and controllable transportation, optimize delivery routes, and reduce carbon emissions during transportation. At the same time, in consideration of the national eco-redline management requirements, all of our factories are located away from the eco-redline and its adjacent areas.



Case

Green rail channel helps Mengniu to realize green storage and transportation

On the afternoon of October 30, 2018, China Railway Hohhot Group Co., Ltd., China Railway Express Co., Ltd. and Mengniu Group signed a strategic logistics cooperation agreement at Mengniu Inner Mongolia Horinger Production Base to jointly build a green express service for Inner Mongolia's dairy industry. From order placement, order confirmation, shipment, settlement, transportation, to delivery to end customers, each step is tracked with information feedback, so that Mengniu products can reach the destination quickly, efficiently and economically-friendly. This event marks the official entry of China Railway green logistics into the dairy industry, opening a new chapter in the green development of dairy logistics in the new era.





To Achieve
Happiness
From Every
Drop Of Milk

Our Commitments: To Achieve Happiness from Every Drop of Milk

As a national enterprise, we integrate social responsibility into our corporate culture, and actively give back to the society. On the basis of promoting the transformation of the dairy industry, we strengthen the sustainable and precise poverty alleviation model, from the "inclusive nutrition plan" to the "rancher university". At the same time, Mengniu carries out social welfare with pragmatic and forward-looking actions to help realize the vision of building a well-off society in an all-round way. In 2018, Mengniu invested a total of 25 million yuan in public welfare.

Mengniu's Commitments



Increasing the input of philanthropy to benefit the whole world.



Providing products that meet the needs of all age groups as well as special groups and provide sustainable health and well-being for all.

Mengniu's Action in 2018

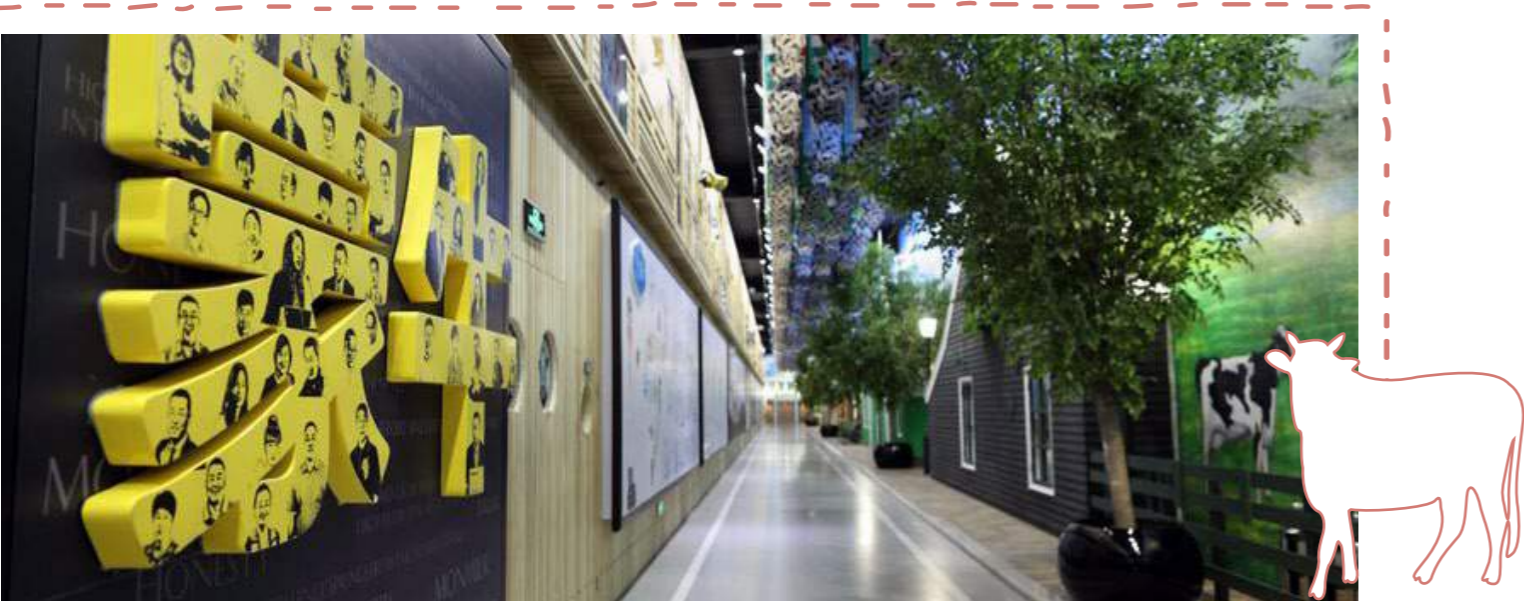
Mengniu adopts the three-in-one trinity poverty alleviation model, which is "industry-based poverty alleviation, nutrition-based poverty alleviation and fixed-point targeted poverty alleviation", to support the economic development of poor pastoral areas.

At the same time, Mengniu carries out a number of philanthropy voluntary activities, to give back to the community with our efforts.

Mengniu develops the "Inclusive Nutrition Plan" nationwide, for example, donating school milk to poor children and carrying out nutrition and health education in order to contribute to the early development of children and break the multidimensional poverty.

Targeted Poverty Alleviation

We take the idea of "focusing on industry, teaching people to fish, precision driving, and win-win sharing" as our philosophy. Based on our advantages "from Grass to Glass" long industrial chain, and widespread distribution of our business throughout the country, we build a model with Mengniu characteristics, which is "industrial poverty alleviation, nutrition-based poverty alleviation and targeted poverty alleviation", to fight against poverty by means of our own way.



✓ Helping the Ranchers

Mengniu persists in the course of sustainable development and poverty alleviation in accordance with the concept "teaching people to fish", and drive the economic development of poor pastoral areas through the development of dairy industry. The Company helps to transform and upgrade rural farms in poverty-stricken counties into modern, large-scale, intensive, and digital farms. We also devote to the construction of a "community with common future" with the vast number of farmers and herdsmen to help them truly get rid of poverty and become rich.

Rancher University

Cooperated with universities, scientific research institutions, Mengniu and "China - Danish Dairy Technical Cooperation Center" launched the social responsibility program "Rancher University" in 2013, which provides comprehensive support, such as funds, technology, talents, management, and information sharing to farmers in pastoral areas, so as to speed up the transformation and upgrading of the cooperative ranch to increase the incomes of farmers and herdsmen.



The "Rancher University" program has trained more than **10,000** ranch personnel free of charge, and the satellite lecture has covered **39,000** people. A total of **470** technological innovation projects have been carried out to help more than **1,000** pastures improve from **24** dimensions, such as the cattle structure, feeding management, etc. What's more, the average yield per unit of dairy cows increased by **2** kg, and the cost of milk per kilogram decreased by **0.2** yuan on average, cumulatively helping pastures to improve efficiency of more than **800** million yuan.



“Dairy Golden Key ”

In 2016, Mengniu reached a cooperation with the “Dairy Golden Key ” program of National Dairy Industry Technology System. The “Rancher University” was further improved, and special activities of Mengniu “Dairy Golden Key” were held in milk source areas throughout the country. With the combination of on-spot diagnostic service, specific technical report, technical operation drill, and technology salon, we helped our cooperative pastures improve competitiveness.

By the end of 2018, the “Golden Key” technology demonstration of Mengniu has been held for **19** times which covered more than **500,000** kilometers radiated more than **1,000** pastures throughout the country and benefited more than **4,500** people

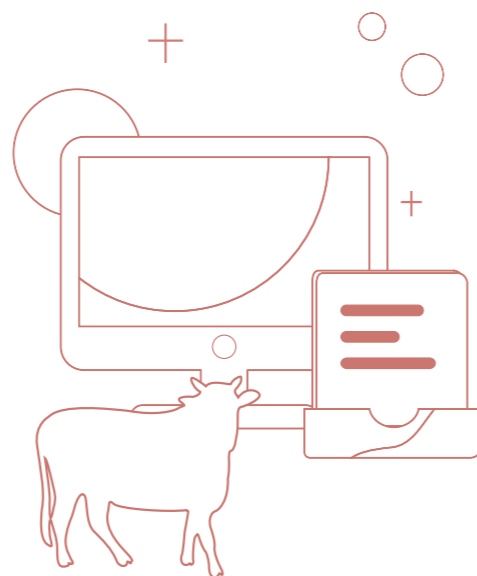


Case

Targeted Poverty Alleviation through Internet - Online Animal Husbandry Knowledge Platform “Ranchers Says”

In order to get rid of the restrictions of on funds, personnel and geography, and make more cattle breeders benefit from Mengniu, the Company developed the “Ranchers Says” animal husbandry knowledge sharing platform by means of Internet technology innovation. An entrance was set up on the Company’s WeChat service account. Thus, with a smart phone in hand, cattle breeders can raise questions to top animal husbandry experts by means of pictures, texts, voice chats and other forms whenever and wherever possible, and even receive “consultation” from a number of experts.

In 2018, the number of “Ranchers Says” members increased by more than **1,300**, or nearly **80** percent, compared with the end of the previous year. The reading volume of Q&A, knowledge articles and micro-course videos are stable, with the average reading volume reaching more than **300** times, and the total reading volume of the whole system reaching more than **400,000** times.



Case

Helping to Build World’s Highest Dairy Enterprise - Modern Dairy Processing Factory “Pure Land Dairy”, a Tibetan Independent Brand

Due to the relatively backward technology and management, the annual output of liquid milk in Tibet is less than 300,000 tons, and the output of liquid milk in enterprises above scale is less than 10,000 tons. The Tibetan “Pure Land Dairy” Project was launched in June 2016, and Mengniu provided all-round and multi-level professional support in the areas of financial aid, cow breeding, factory layout design, selection of main equipment, process innovation, infrastructure project control, and formulation of technological process system, etc. In September 2018, the Pure Land Dairy was officially put into operation in Lhasa, marking Tibet’s first modern dairy processing plant with its own brand.

In order to achieve the target of industry-based poverty alleviation, the “Pure Land Dairy” project would redistribute the net profit in the ratio of 5:3:2, in which 50% would be used to expand reproduction, 30% would be dividends for the poor, and 20% would be used as development funds for poverty alleviation in Chengguan District of Lhasa. The project covers an area of **62.81** mu. After the first phase of the designed production capacity is put into operation, it is estimated to process **150** tons of raw milk per day, and the annual output of liquid milk would be **50,000** tons, with an annual output value of **550** million yuan. The project can directly provide more than **270** jobs, and indirectly drive more than **25,000** people to take up jobs in other aspects of the industrial chain, such as forage grass cultivation and dairy farming, and make more income and wealth for farmers and herdsmen.



Tibetan “Pure Land Dairy ” with the Technical Aid of Mengniu Has Been Put Into Operation

Awards

- ✓ In June 2018, at the 3rd Corporate Citizens Responsibility Forum, the Company was granted the top 50 Brands for Chinese Corporate Citizens’ Responsibility by virtue of the multi targeted alleviation projects of the whole industrial chain, such us “Inclusive Nutrition Plan”, “Mengniu Rancher University”, and “Ranchers Says”.
- ✓ In December 2018, Mengniu’s targeted poverty alleviation case won 2018 enterprise targeted poverty alleviation excellent case award in the *Blue Book of Corporate Poverty Alleviation 2018* released by the Corporate Social Responsibility Research Center of Chinese Academy of Social Sciences.
- ✓ In December 2018, the People’s Daily held the 13th Annual People’s Corporate Social Responsibility Award Ceremony. Mengniu won the “Annual Poverty Alleviation Award” by virtue of the three-in-one poverty alleviation model of “Industry-based poverty Reduction + Nutrition-based Poverty Alleviation + Fixed-point Poverty Alleviation” and the poverty alleviation measures of “Enriching people and Prospering Tibet”.
- ✓ Mengniu’s Poverty Alleviation Case *Industry-based Poverty Alleviation + Nutrition-based Poverty Alleviation + Fixed-point Poverty Alleviation* was selected as the top 50 cases of enterprises poverty alleviation by the Poverty Alleviation and Development Leading Group Office of the State Council.

Trophy





✓ Rural Revitalization

Mengniu actively responds to the call of fixed-point poverty alleviation. Since 2014, the Company has been making efforts to providing poverty alleviation aid to the designated Ludongping Village, Yangqungou Township, Helin County, Huhhot City. In the village, Mengniu has carried out poverty alleviation research for several times, and actively built reservoirs, roads, wells and other infrastructure to guarantee the basic needs of the villagers. At the beginning of 2018, Mengniu donated 1 million yuan to cover the insurance expenses of accidental death, disability, accidental hospitalization and serious disease hospitalization for the poor in Helin county, and distributed milk to the poor in two batches, injecting new impetus into the poverty alleviation work in the county.

Case

Mengniu Supports Rural Infrastructure Construction

Since 2009, Mengniu has invested over 10 million yuan in constructing livelihood project "love wells". In 2018, Mengniu invested **400,000** yuan to dig a deep underground well for Gedongping village, which solved the problem of drinking water that had troubled the villagers for decades, and benefited local people. By the end of 2018, Mengniu had visited **156** regions in Inner Mongolia, and has dug **72** deep-water wells, which benefits more than **200,000** farmers and herdsmen.

In addition, Mengniu actively participates in COFCO's targeted poverty alleviation work in Menyuan Hui autonomous county, Qinghai province, Long'an county, Nanning city, Guangxi province, and Luoza county, Shannan city, Tibet.

- In Long'an County, Mengniu allocated poverty alleviation funds of **1** million Yuan to support the development of poverty alleviation projects, and purchased **136,000** yuan worth of banana pulp from local manufacturer as raw materials to drive the local economic development.
- In Luoza County, Mengniu launched the School Milk Inclusive Nutrition Program, delivering **1,505** sets of free school milk to **1,800** poor primary school students and preschool children aged 3-6.

Health and Well-being

We combine our industry mission of improving national nutrition and health with the care for children's nutrition and health in poor areas. With boxes of milk, nutrition fortress to protect the future of children has been built. Mengniu also attaches great importance to the close relationship between milk and sports. By sponsoring international competitions and supporting the development of mass sports, Mengniu works to strengthen the national physique and build health and happiness.

✓ Inclusive Nutrition Plan

Adhering to the principle of "nutrition-based poverty alleviation + intellectual support", Mengniu has been producing school milk in strict accordance with the national standards for 16 consecutive years since it was granted the national school milk production qualification in 2002. In 2017, Mengniu took the lead in response to the "China's Well-off Milk Initiative", a project launched by the Ministry of Agriculture and China's Dairy Industry Association. We upgraded Mengniu's annual program of "Student Milk Program" to "Inclusive Nutrition Plan", donating student milk to poor children, and carrying out nutrition health and education, which helps promote early childhood development and break the multi-dimensional poverty.

In 2018, Mengniu launched a nationwide milk donation campaign. It has already completed the goal of donating **200,000** boxes of milk, covering **137** schools in **91** counties, **18** provinces and one municipality, benefiting **21,880** students of which more than **11,000** are from low income family. In addition, Mengniu held **42** activities of "nutrition and health promotion", and **100-200** student's parents were invited to participate in each activity to make parents know the details of the safety and standard management of school milk, thus students are confident to drink school milk. Meanwhile, we also invited nutrition experts to conduct milk class lectures to let parents understand the great benefits of drinking milk during the class break for the healthy growth of students, benefiting nearly **10,000** families.



Donation Program Signing Ceremony between Mengniu and Xiangxi Government



Blue Book on Inclusive Nutrition for Children in Rural China, issued by Mengniu and Institute of Food and Nutrition Development, Ministry of Agriculture

Case

Mengniu conducts a pilot project to improve the nutrition of preschool children in Xiangxi, Hunan Province, working together to achieve the sustainable development goals of the United Nations

In May 2018, Mengniu signed a MOU with the United Nations World Food Programme (WFP) for the Hunan Xiangxi Preschool Children Nutrition Improvement Program, to jointly support the Chinese Government to expand the nutrition improvement program for students with compulsory education in rural areas, and in achieving the goal of "reducing the underdevelopment rate of children under 5 years of age to less than 7% by 2020". As a cooperative enterprise of this pilot project, we are committed to the nutrition and poverty alleviation of preschool children. We will provide school milk for **2,045** children from 15 kindergartens in Yongshun County and 14 kindergartens in Longshan County, Hunan Province for 3 school years, with a total value of **2.2** million yuan.

At the signing site, Mengniu and the Institute of Food and Nutrition Development of the Ministry of Agriculture and Countryside jointly issued the *Blue Book on Inclusive Nutrition for Children in Rural China*. We hope this report will provide a thorough analysis of the nutritional problems of rural children in China, draw on and learn from domestic and foreign experiences, to promote policy legislation to better address the nutritional improvement of rural children, and to help realizing the 2020 Healthy China Strategy.



The Nutrition Inclusion Program won several CSR Awards

On June 20th, 2018, Mengniu was awarded the 2017 Top Ten Social Public Services Welfare in Hohhot.

On June 1st, 2018, our Inclusive Nutrition Plan was awarded the 2018 Asian Corporate Social Responsibility: Social Welfare Development Award at the 2018 International Corporate Social Responsibility Forum.

On June 26th, 2018, Mengniu won the title of "Top 50 Chinese Corporate Citizenship Responsibility Brand of 2018".

On November 12th, 2018, Mengniu was awarded the title of "Three-star Chinese Outstanding Enterprise Citizen", and the Nutrition Inclusive Plan was awarded the "2018 Chinese Corporate Citizen Outstanding Public Welfare Project Award".

✔ Promoting Physical Fitness

Mengniu organically integrates the health cause with the "sports gene" and is committed to delivering the brand concept of health, quality and nutrition to the public by sponsoring sports events, and playing a leading and promoting role for the Chinese dairy industry to move towards the world. Over the years, Mengniu has sponsored a number of important sportings events and achieved strategic cooperation with the NBA for more than 10 years.

In 2018, Mengniu became the global official sponsor of the 2018 FIFA World Cup and launched a series of World Cup promotion activities about the brand proposition of "Power of Nature, Born for Greatness". Mengniu signed Lionel Messi as the brand ambassador, and produced advertising film around the core of "Power of Nature, Born for Greatness", telling Messi's story of facing difficulties, frustrations, and standing up after failure, which has caused strong resonance among the fans.



Case Supporting Young Footballers and Showing the Future Power of Chinese football



The grand excursion ceremony of "Show Your Skills, Young Footballers!"



Chinese young players at the opening ceremony of the World Cup in Russia

During the 2018 World Cup in Russia, Mengniu kicked off the public welfare activity "Show Your Skills, Young Footballers!" aiming at promoting the development of youth football. Eighty-eight young players under the age of 14 selected nationwide had the chance to stand on the field of eight crucial games at the World Cup. Among them are children from the impoverished mountainous areas and Hellingeer County, Inner Mongolia where Mengniu's headquarters is located in, and young footballers from Zhidan schools in the old revolutionary base. This time at the center of the world stage, they show the future power of Chinese football.

From selection to winning out, from assembly to official setting off, Mengniu provided the best training for the young players. We teamed up with the top Chinese football clubs to provide technical support, and invited famous football veterans like Li Yi, Fan Zhiyi, Yang Chen and Luis Figo for personal guidance. In addition to standing on the field of the World Cup, 33 young players were invited to participate in the 2018 Sino-Russian Youth Football Friendship Competition jointly organized by the Ministry of Education, Russian-Chinese Friendship Association, the CCTV5, Russia 2018 World Cup Organizing Committee and the Moscow Spartak Football School. The Chinese youths finally won the game with a score of 3:2.

When the youth is strong, the county is strong. In the future, Mengniu will continue to pay attention to and support the development of Chinese youth football. In addition to cooperating with various professional clubs to carry out training for youth, we will also support more young footballers from poor areas and poor families with better and more professional training, so that positive football culture can become the positive energy for more Chinese people to realize China Dream.

Case

Sponsoring the World Fencing Championship, Mengniu Cheese Co., Ltd. makes the "Healthy China" dream come true

In June 2018, Mengniu Cheese became the official sponsor of the 2018 World Fencing Championship. The company jointly launched the "Five New" strategy with Arla new products, new formula, new packaging, new IP and new marketing, aiming to promote products and brand image comprehensively. As a sponsor of the World Fencing Championship, Mengniu Cheese displays the high-quality of domestic cheese to the world, and realizes the brand mission of "taking the responsibility of strengthening the national physique and making the Healthy China dream come true".



Signing ceremony of Mengniu Cheese's sponsoring the 2018 World fencing Championships



Mengniu Cheese and Arla jointly launched the "five New" Strategy

Social Public Welfare

Mengniu has always been committed to repaying the society, carrying out public welfare activities such as blood donation, supporting soldiers and their families, rural education, caring for left-behind children and elderly. We spread the concept of voluntary service, bringing warmth and love to more people in need.

✓ Blood Donation

Since the establishment of the first emergency blood donation team in Helinger Plant in 2007, Mengniu has actively organized employees for voluntary blood donation, contributing the love of Mengniu people to the society.

In 2018, Mengniu's factories organized various blood donation activity in different places, such as "Donating blood with our warm heart" and "Blood donation, you and me".

✓ Supporting Soldiers and Their Families

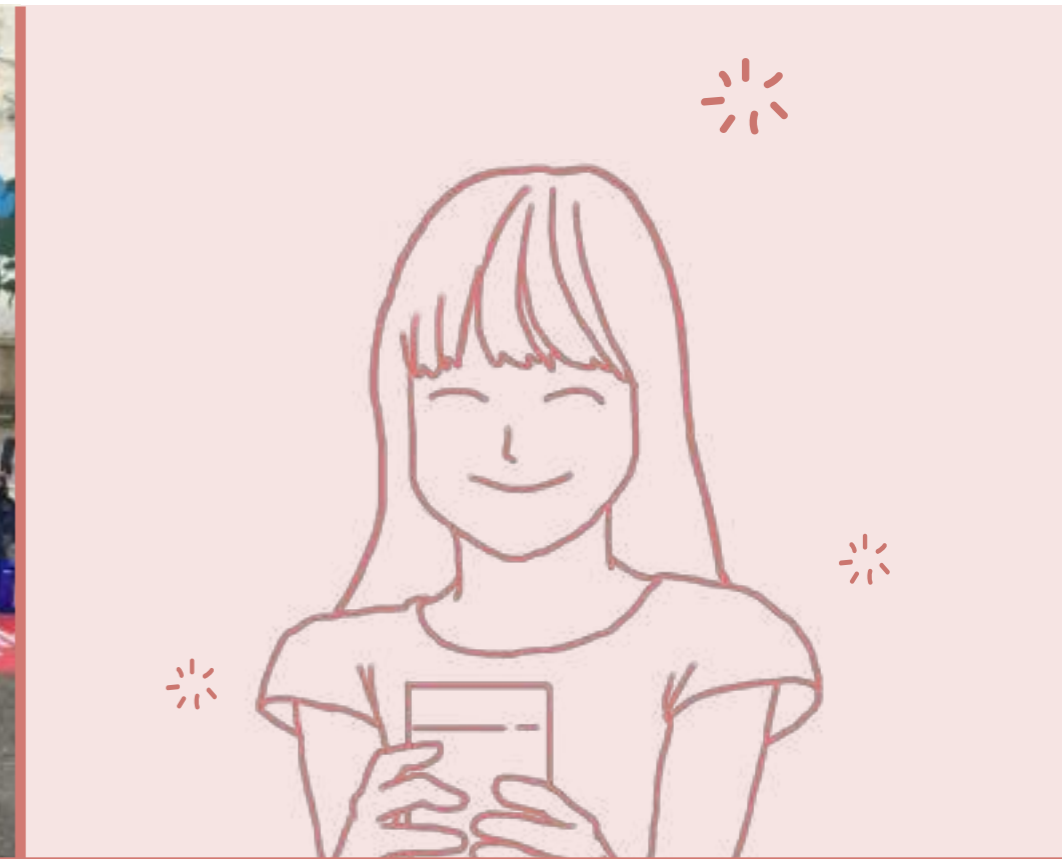
Mengniu actively promotes the fine tradition of supporting soldiers and their families, and carries out various forms of condolence activities. Since 2017, Mengniu has set up a Navy Family Care Fund with an investment of nearly 2 million yuan to support soldiers' family members with financial difficulties and to conduct condolence activities.

In November 2018, Mengniu Tibet-Chongqing Section Organization visited the 31680 troop in Chongzhou, delivering Mengniu milk and other materials to the soldiers.



✓ Caring for Left-behind Children

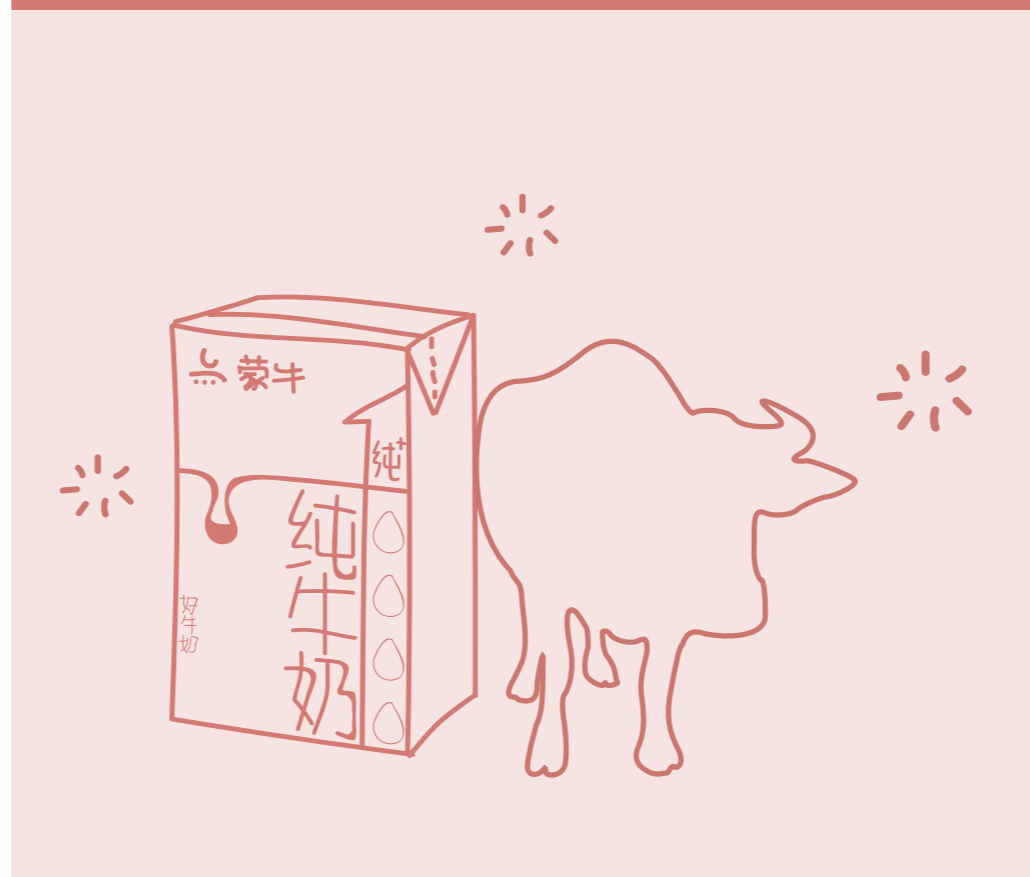
- In June 2018, Jiangsu section of Mengniu went to Jianyi Primary School in Suzui Town Huai'an City to carry out "Caring and Accompanying" activity, and sent 200 left-behind children gifts of "Mengniu Future Star" milk, school supplies and holiday blessings.
- In September 2018, Wuhan factory sent milk, schoolbags, brushes and Mid-Autumn blessings to the left-behind children and teachers of Zhuci Primary School in Husi Town, Jiangxia District, Wuhan, and developed a more practical assistance plan for the children in need according to their family conditions.
- In November 2018, Northeast section launched the fifth "One Piece of Clothes and One Piece of Love" campaign, and donated 5 boxes of winter clothes, 60 insulating cups, 60 scarves and 2 boxes of books to primary and secondary school students. At the same time, the Northeast section carried out "Sunshine Education Support" public welfare activity, donated 10,000 yuan and 20 boxes of yoghurt donated to 20 poor students from Wafangdian McKeller Hope Primary School and Xiyang Primary School, hoping that, the warmth brought by Mengniu employees will protect children's health and dreams.



✓ Caring for the Elderly

Mengniu pays attention to the needs of the elderly group. We voluntarily take on the social responsibility of caring for the lonely elderly, so that more elderly people can enjoy healthy and happy life in old age.

In October 2018, Taiyuan factory, Baoji factory and Jiangsu section of Room Temperature Business Division launched the "Chongyang Festival Warmth" campaign one after another. Volunteers sent Mengniu milk to the elderly in the nursing home, and helped the elderly clean their room and chatted with them, sending the love of Mengniu to the lonely elderly with practical actions.



✓ Disaster Assistance

Mengniu has always been the "leader" of helping people in times of disaster. Mengniu established a disaster assistance emergency plan system to allocate internal and external resources to ensure a right, efficient and rapid response during disasters.

In July 2018, a flood disaster struck Dongxiang County, Linxia Hui Autonomous Prefecture, Gansu Province, and many people were killed and disappeared. The disaster also caused road collapse, bridge erosion, flooding of farmland and serious damage of mass houses. The employees of Linxia Yiqing Muslim Food Co., Ltd. rushed to the Orchard Township of Dongxiang County on July 21st to distribute disaster relief materials like milk, mineral water and ice cream to people, contributing their efforts to fighting floods and disaster relief with practical actions.

Mengniu's Commitments to Sustainable Development

UN 2030 Sustainable Development Goals	Mengniu Commitment	Mengniu Future Action Goals
 <p>2 ZERO HUNGER To eliminate hunger, achieve food safety, improve nutrition and promote sustainable agriculture</p>	<p>Increasing charitable investment, extending Mengniu public welfare benefits to the whole world</p>	<p>Mengniu will win the battle against poverty by poverty alleviation through industrial development, deepen connection with farmers and herdsmen, and thus help poverty-stricken areas out of poverty and get rich.</p>
 <p>3 GOOD HEALTH AND WELL-BEING Ensure healthy lives and promote well-being for all at all ages</p>	<p>Providing products that meet the needs of all ages and special populations, and providing sustainable health and well-being for all men and women</p>	<p>Mengniu will promote a healthy lifestyle and the well-being for people of all ages and special groups. Focusing on product R&D and innovation, we will provide consumers with higher-quality, more nutritious and healthier, and more diverse dairy products, while adhering to the concept of inclusive nutrition, advocating sportsmanship, and improving the overall health of the public.</p>
 <p>7 AFFORDABLE AND CLEAN ENERGY Ensure access to affordable, reliable, sustainable and modern energy</p>	<p>Using cleaner energy, developing a circular economy, and investing more in energy infrastructure and clean energy technologies</p>	<p>Mengniu will continue to increase its investment in clean energy research and development, focusing on establishing a regulatory framework and innovative business model to promote the transformation of the world's energy system. It will reduce waste of resources through product development and technological improvement, promote the resourceful utilization of waste, and drive the upstream and downstream of the industry chain and consumers to practice the circular economy, so that Mengniu could become a leader and advocator of circular economy in the industry.</p>
 <p>8 DECENT WORK AND ECONOMIC GROWTH Promote inclusive and sustainable economic growth, employment and decent work for all</p>	<p>Providing fair and decent jobs and helping employees grow</p>	<p>Mengniu will strive to promote lasting, inclusive and sustainable economic growth and promote sufficient productive employment and decent work for everyone, thereby providing sufficient talent reserves for the long-term sustainable development of the Company. It will provide employees with an equal and smooth growth platform with employee service as the core, promote intelligent management of talent sharing, and create a program for employee happiness.</p>
 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE Build resilient infrastructure, promote sustainable industrialization and foster innovation</p>	<p>Driven by innovation, improving the efficiency of resource and energy use and creating a digital ecosystem</p>	<p>Driven by innovation, Mengniu will use technological advances to help improve efficiency of resources and energy use, increase investment in innovation, build a comprehensive "grass-to-glass" management system based on IT application and digitization, and form a digital ecosystem that covers Mengniu's entire industrial chain.</p>

UN 2030 Sustainable Development Goals	Mengniu Commitment	Mengniu Future Action Goals
 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION Ensure sustainable consumption and production patterns</p>	<p>Through full-lifecycle production management and responsible marketing, achieving "larger, better and more economical production"</p>	<p>Mengniu will actively promote sustainable consumption and production models, promote efficient use of resources and energy, strive to reduce economic, environmental and social costs, as well as strengthen economic competitiveness and reduce poverty. Through a sound quality and safety management system and full-lifecycle product management, we will create quality milk with strict standards and craftsmanship and achieve full-lifecycle product quality tracking and risk management.</p>
 <p>13 CLIMATE ACTION Take urgent action to combat climate change and its impacts</p>	<p>Implementing green manufacturing and green development, and continuously reducing greenhouse gas emissions</p>	<p>Mengniu will actively take actions to address climate change and its impact. It will seek solutions to help developing countries transition to low-carbon economies, implement the concept of green low-carbon development, and improve the organization's internal carbon information management. It will assume leadership responsibility, improve the carbon management of ranches, and promote the industry's green and low-carbon development.</p>
 <p>15 LIFE ON LAND Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss</p>	<p>Adhering to high standards of animal welfare and safeguarding the health and rights of dairy cows</p>	<p>Mengniu will conserve, restore and promote the sustainable use of terrestrial ecosystems, curb the loss of biodiversity, and protect the health and rights of dairy cows with adherence to high standards of animal welfare. We will strengthen the management of ranch ecology, reduce the impact of ranches on the ecological environment through specific projects, and explore a model of balancing ranch operation and ecological environment.</p>
 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS Promote just, peaceful and inclusive societies</p>	<p>Building an effective, accountable and transparent corporate governance system to contribute to a better business community</p>	<p>Mengniu will comprehensively improve the business ethics awareness and overall management of Mengniu suppliers, distributors, employees and other stakeholders and contribute to building a more peaceful and inclusive society.</p>
 <p>17 PARTNERSHIPS FOR THE GOALS Revitalize the global partnership for sustainable development</p>	<p>Building a digital and responsible supply chain to promote win-win cooperation across the entire industry chain</p>	<p>Mengniu will actively develop sustainable global partnerships, pool global resources, and strengthen centralized management of supply chain systems to promote the fulfilling of social responsibilities and create a safe, green, and high-quality international responsible supply chain. At the same time, efforts will be made to build a comprehensive "grass-to-glass" management system based on IT application and digitization, to unite stakeholders so that Mengniu products are traceable from grass to glass, and to form a digital ecosystem that covers Mengniu's entire industrial chain.</p>

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Reader's Feedback

Dear Readers,

Thank you very much for reading the *Sustainability Report of China Mengniu Dairy Co., Ltd. (2018)*. We attach great importance to your opinions, and look forward to hearing your feedback on our sustainable development management, practice and information disclosure. Your opinions and suggestions are an important basis for our sustainable development management and practice. Looking forward to your reply!

Optional questions (please mark ✓ on your answer)

1. Do you think this report can reflect material impact of Mengniu on economy, society and environment?

Good Fair Poor

2. Do you think this report can identify stakeholders and correctly and comprehensively analyze their relationships with Mengniu?

Good Fair Poor

3. Do you think the information in this report is comprehensive?

Good Fair Poor

4. Do you think the information in this report is readable?

Good Fair Poor

Open-ended question

You are welcomed to making comments and suggestions for the *Sustainability Report of China Mengniu Dairy Co., Ltd. (2018)*

Your contact information

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